THE AMERICAS

ARGENTINA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production, and Employment:			
GDP (at current prices) [2]	298	283	285
Real GDP Growth (pct)	3.9	–3.0	0.7
GDP by Sector (pct):			
Agriculture	7.3	7.2	7.3
Manufacturing	24.7	24.8	24.8
Mining	3.0	2.9	3.0
Services	38	38.1	38.2
Government	10.3	10.8	10.8
Per Capita GDP (US$) [3]	8,260	7,700	7,700
Labor Force (millions)	14.0	14.2	14.4
Unemployment Rate (pct)	12.9	14.3	15.4
Money and Prices (annual percentage growth):			
Money Supply (M2) [4]	3.9	–1.4	0.0
Consumer Price Inflation [4]	0.7	–1.8	–0.5
Exchange Rate (peso/US$)	1.0	1.0	1.0
Balance of Payments and Trade:			
Total Exports FOB	26.4	23.3	25.6
Exports to United States [5]	2.3	2.6	2.9
Total Imports CIF	31.4	25.5	27.3
Imports from United States [5]	5.9	5.0	4.5
Trade Balance [6]	–5.0	–2.2	–1.6
Balance with United States [5]	–3.6	–2.4	–2.6
External Public Debt	82.4	84.8	92.8
Fiscal Deficit/GDP (pct)	–1.3	–2.5	–1.9
Current Account Deficit/GDP (pct)	4.9	4.3	3.6
Debt Service Payments/GDP (pct) [7]	3.7	4.5	5.0
Gold and Foreign Exchange Reserves	24.9	26.4	26.7

[1] Figures for year 2000 are embassy estimates.
[2] The Argentine peso was tied to the U.S. dollar at the rate of one to one in 1991. In 1999, the Argentine government changed its method of calculating GDP and revised its figures for 1998 downward.
[3] World Bank (GDP at market prices)
[4] End of period.
[5] Source: U.S. Department of Commerce; Calendar Year 2000 figures are estimates based on data available through July.
[6] Trade balance does not add due to rounding.
[7] External public debt service payments.

1. General Policy Framework

Argentina stabilized and revitalized its economy after undertaking extensive reforms in the early 1990s. State-owned entities were privatized, the peso was linked to the dollar under a currency board arrangement, and many barriers to trade and investment were dismantled. Despite a sharp recession in 1995, real GDP growth averaged over 6 percent a year from 1991–1997. Argentina is recovering from the effects of the Mexican peso crisis, the Asian and Russian financial crises and Brazil's devaluation. Growth is estimated at less than one percent for 2000 after a three-percent decline in GDP in 1999.

Argentina's banking sector has consolidated during the last several years. The number of financial institutions in Argentina dropped from over 200 in 1994 to 117 at present. The country's financial sector is considered sound, and foreign capital flows freely. However, Argentina's fiscal situation remains a concern. A fiscal responsibility law, which mandates fiscal equilibrium by 2003, will support government efforts to close the fiscal gap; however, tax evasion remains a major problem. In March 2000, Argentina concluded a three-year $7.2 billion Stand-by Arrangement with the International Monetary Fund (IMF) that has increased lender and investor confidence.

President Fernando de la Rua, who took office in December 1999, has maintained the main elements of the country's economic policy, including the convertibility of the peso and the dollar, as well as relatively open markets for trade. Overall, Argentina remains one of the hemisphere's most promising emerging markets for U.S. trade and investment.

2. Exchange Rate Policy

Under the Convertibility Law of 1991, the exchange rate of the Argentine peso is fixed to the dollar at the rate of one to one, under a currency board type of arrangement called "convertibility". This rate is expected to remain unchanged in the medium term. Argentina has no exchange controls. Customers may freely buy and sell currency from banks and brokers at market prices.

3. Structural Policies

Argentina's economic reforms have achieved significant progress in transforming Argentina from a closed, highly regulated economy to one based on market forces and international trade. The government's role in the economy has diminished markedly with the privatization of most state firms. Argentine authorities also eliminated price controls on almost all goods and services. The government abolished the import licensing system in 1989 and in 1990 cut the average tariff from nearly 29 percent to less than 10 percent.

Argentina, Brazil, Paraguay, and Uruguay established the Southern Cone Common Market (MERCOSUR) in 1991, and in 1995 formed a partial customs union with a Common External Tariff (CET) covering approximately 85 percent of trade. The CET ranges from zero to 20 percent, and has raised Argentina's average tariff to approximately 14 percent. In 1998, MERCOSUR members hiked the CET by three points for most products. The increase is scheduled to expire on December 31, 2000. Initially, the government exempted some products from the CET, such as capital goods, information technology and telecommunications, to help support the modernization of the industrial infrastructure. However, in 1996 tariffs on these items were increased to the MERCOSUR level. As a result, many non-MERCOSUR products entering Argentina now face higher tariffs. The tariff on capital goods, which account for over 40 percent of U.S. exports to Argentina, ranges from 10 to 14 percent. Chile signed a free trade agreement with MERCOSUR in 1996, but does not participate in the CET. Bolivia also entered into a similar pact in 1997. MERCOSUR is also discussing the prospect of a free trade agreement with the Andean community.

Argentina signed the Uruguay Round agreements in April 1994. Its congress ratified the agreements at the end of 1994, and Argentina became a founding member of the World Trade Organization (WTO) on January 1, 1995.

4. Debt Management Policies

Argentina's public debt maturities are mostly concentrated in the medium to long term. Public sector debt increased in 1999, rising to almost $122 billion. Public sector debt service payments in 2000 will represent about seven percent of GDP. The turmoil in international financial markets in recent years complicated Argentine access to foreign capital; however, in spite of difficult market conditions, the government met its external financing requirements. Argentina remains vulnerable to external shocks, but recent agreements with the IMF and other international financial institutions have provided an added degree of confidence to financial markets.

5. Significant Barriers to U.S. Exports

Although Argentina is one of the most open markets in Latin America, domestic political pressure, the impact of Brazil's devaluation and continued high unemployment in Argentina have led the government to take some ad hoc protectionist measures

Argentina protects its automobile assembly industry through a combination of quotas and high tariffs negotiated among MERCOSUR members. The government is currently negotiating a new common MERCOSUR auto policy with Brazil and other MERCOSUR members.

Standards: Argentina has traditionally recognized both U.S. and European standards. However, as the government and its MERCOSUR partners gradually establish a more structured and defined standards system, the standards requirements are becoming progressively more complex, particularly for medical products and electronics. In 1999, Argentina instituted new rules under which imported electronics would have to carry a local safety certification. Under the WTO agreement on technical barriers to trade, Argentina established an "inquiry point" to address standards-related inquiries. While this inquiry point exists formally, it is not fully functional.

Services Barriers: In 1994, the authorities abolished the distinction between foreign and domestic banks. U.S. banks are well represented in Argentina and are some of the more dynamic players in the financial market. U.S. insurance companies are active in providing life, property and casualty, and workers compensation insurance. The privatization of pension funds has also attracted U.S. firms.

Investment Barriers: Foreign investment receives national treatment under Argentine law. Firms need not obtain permission to invest in Argentina. Foreign investors may wholly own a local company, and investment in firms whose shares trade on the local stock exchange requires no government approval. There are no restrictions on repatriation of funds.

The United States-Argentina Bilateral Investment Treaty (BIT) came into force in 1994. Under the treaty, U.S. investors enjoy national treatment in all sectors except shipbuilding, fishing and nuclear power generation. An amendment to the treaty removed mining, except uranium production, from the list of exceptions. The treaty allows arbitration of disputes by the International Center for the Settlement of Investment Disputes (ICSID) or any other arbitration institution mutually agreed by the parties. Several U.S. firms have invoked the treaty's provisions in several ongoing disputes with Argentine national or provincial authorities.

Government Procurement Practices: Argentina is not a signatory to the WTO Government Procurement Agreement. The de la Rua administration is re-establishing a "Buy Argentine" preference that will allow Argentine companies to lower their bids as much as five percent to match foreign companies' bid offers. Argentine sources will theoretically only be chosen when all other factors (price, quality, etc.) are equal.

Customs Procedures: Customs procedures are opaque and time-consuming, thus raising the cost for importers. Installation of an automated system in 1994 has eased the burden somewhat. The government is resorting more frequently to certificate-of-origin requirements and reference prices to counter under-invoicing and dumping, primarily from East Asia. In 1997, the government merged the customs and tax collection authorities to boost revenues and improve efficiency. It has also instituted a pre-shipment inspection system to verify the price, quality and quantity of imports. Six private firms are implementing the system.

6. Exports Subsidies Policies

As a WTO member, Argentina adheres to WTO subsidies obligations. It also has a bilateral agreement with the United States to eliminate remaining subsidies provided to industrial exports and ports located in the Patagonia region. Nevertheless, the government retains minimal supports, such as reimbursement of indirect tax payments to exporters. The government also maintains an industrial specialization program that allows certain industries that boost their exports to report a comparable amount of imports at a reduced tariff. The program will end in the year 2000.

7. Protection of U.S. Intellectual Property

Argentina belongs to the WTO and the World Intellectual Property Organization (WIPO). Argentina is a signatory to the Paris Convention, Bern Convention, Rome Convention, Phonograms Convention, Nairobi Treaty, Film Register Treaty, and the Universal Copyright Convention. The U.S. Trade Representative has placed Argentina on the "Special 301" Priority Watch List. Argentina's lack of patent protection for pharmaceutical products has consistently been a contentious bilateral issue and in 1997 the United States withdrew 50 percent of Argentina's benefits under the U.S. Generalized System of Preferences (GSP).

Patents: After a three-year conflict between the Argentine Executive and Congress over the issue of patent protection for pharmaceutical products, the Executive issued a decree in 1996 that improves earlier Argentine patent legislation, but provides less protection than that called for in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). This decree authorizes the National Institute for Intellectual Property (INPI) to provide pharmaceutical patent protection starting in November 2000. The 1996 decree does not provide patent protection for products under development, does not protect confidential data, and contains ambiguous language on parallel imports and compulsory licenses. INPI has also failed in most cases to provide prompt and fair treatment to applications for exclusive marketing rights (EMRs) for pharmaceutical products during Argentina's patent transition period. As a result of these shortcomings, the U.S. government has entered into WTO dispute settlement consultations with Argentina.

Copyrights: Argentina's Copyright Law, enacted in 1933, appears to be adequate by international standards. An executive decree extended the term of protection for motion pictures from 30 to 50 years after the death of the copyright holder. Regardless, video and CD piracy remains a serious problem. Efforts are underway to combat this, including arrests, seizure of pirated material, and introduction of security stickers for cassettes. In 1998, the Argentine Congress enacted legislation making software piracy a criminal offense. However, the Argentine government has yet to comply fully with an agreement to legalize unlicensed software in use in government offices.

Trademarks: Trademark laws and regulations in Argentina are generally TRIPS-consistent. The key problem is a slow registration process, which the government has worked to improve.

Trade Secrets: Although Argentina has no trade secrets law as such, laws on contract, labor, and property have recognized and encompassed the concept. Penalties exist under these statutes for unauthorized revelation of trade secrets.

Semiconductor Chip Layout Design: Argentina has no law dealing specifically with the protection of layout designs and semiconductors. Although existing legislation on patents or copyrights could be interpreted to cover this technology, this has not been verified in practice. Argentina has signed the WIPO treaty on integrated circuits.

8. Worker Rights

a. *The Right of Association:* All Argentine workers except military personnel are free to form unions. Union membership is estimated at 30 to 40 percent of the workforce. Unions are independent of the government and political parties, although most union leaders have ties with the Justicialist (Peronist) Party. Unions have the right to strike, and strikers are protected by law. Argentine unions are members of international labor associations and secretariats and participate actively in their programs.

b. *The Right to Organize and Bargain Collectively:* Argentine law prohibits anti-union practices. The passage of a major labor reform law in May 2000 promotes bargaining on a local, provincial or company level, rather than negotiating at the national level on a sectoral basis. Both the federal government and a few highly industrialized provinces are working to create mediation services to promote more effective collective bargaining and dispute resolution.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced labor, and there were no reports of such incidents during 2000.

d. *Minimum Age for Employment of Children:* The law prohibits employment of children under 14, except in rare cases where the Ministry of Education may authorize a child to work as part of a family unit. Minors aged 14 to 18 may work in a limited number of job categories, but not more than 6 hours a day or 35 hours a week. The law is generally enforced, but there are credible reports that child labor in the informal economy is increasing.

e. *Acceptable Conditions of Work:* The national monthly minimum wage is $200, although prevailing wages for most unskilled and entry-level positions are somewhat higher. Federal labor law mandates acceptable working conditions in the areas of health, safety and hours. The maximum workday is eight hours, and the workweek is limited to 48 hours. The government is also striving to modernize the system of workers compensation. Argentina has well-developed health and safety standards, but the government often lacks sufficient resources to enforce them.

f. *Rights in Sectors with U.S. Investment:* Argentine law does not distinguish between worker rights in nationally owned enterprises and those in sectors with U.S. investment. The rights enjoyed by Argentine employees of U.S. owned firms in Argentina generally equal or surpass Argentine legal requirements.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount
Petroleum	601
Total Manufacturing	3,537

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999—Continued

[Millions of U.S. Dollars]

Category	Amount	
Food and Kindred Products	876	
Chemicals and Allied Products	1,299	
Primary and Fabricated Metals	361	
Industrial Machinery and Equipment	62	
Electric and Electronic Equipment	–20	
Transportation Equipment	187	
Other Manufacturing	773	
Wholesale Trade		488
Banking		2,205
Finance/Insurance/Real Estate		4,837
Services		597
Other Industries		1,922
TOTAL ALL INDUSTRIES		14,187

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

THE BAHAMAS

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000
Income, Production and Employment:			
GDP (Current Prices)	4,190	4,560	4,810
Real GDP Growth	6.3	8.8	5.5
GDP By Sector [1] (estimated percent of total):			
Tourism	60	60	60
Finance	12	15	15
Manufacturing	3	3	3
Agriculture/Fisheries	3	3	3
Government	12	12	12
Other	10	7	7
GDP Per Capita	13,702	N/A	N/A
Labor Force	156,000	156,000	N/A
Unemployment Rate (Percent)	7.9	7.8	7.0
Money And Prices:			
Money Supply (M2) (% increase)	15.3	12.3	N/A
Commercial Interest Rate (percent)	6.75	6.75	6.00
Personal Savings Rate	3.35	3.28	2.87
Retail Price Index [2]	1.3	1.3	1.9
Exchange (Us$:B$)	1.00	1.00	1.00
Balance Of Payments And Trade:			
Total Exports (FOB)	362.9	380.1	N/A
Exports to United States [3]	143.9	195.3	85.7
Total Imports (CIF)	1736.8	1807.7	N/A
Imports from United States [3]	815.6	842.0	352.8
Trade Balance	–1373.9	–1427.6	N/A
Balance with United States	–461.1	–370.7	N/A
External Public Debt	89.5	106.5	177
Debt Repayment	84.0	72.5	N/A
Gold Reserves	N/A	N/A	N/A
Foreign Exchange Reserves	338.7	404.0	N/A
Aid from United States	0	0	0
Aid from Other Countries	N/A	N/A	N/A

[1] Finance Ministry Projections
[2] As Of June 2000
[3] Source: U.S. Department Of Commerce

1. General Policy Framework

The Bahamas is a politically stable, middle-income developing country. The economy is based primarily on tourism and financial services, which account for approximately 60 percent and 15 percent of GDP respectively. The agricultural and industrial sectors, while small, continue to be the focus of government efforts to produce new jobs and diversify the economy.

The United States remains the major trading partner of The Bahamas. U.S. exports to The Bahamas went from $815.6 million in 1998 to $842.0 million in 1999, accounting for approximately 65 percent of all imports. Although certain areas of economic activity are reserved for Bahamian citizens, the Bahamian government actively encourages foreign investment in unreserved areas and operates a free trade zone on Grand Bahama. Capital and profits are freely repatriated, and the Bahamian government does not tax personal and corporate income. Designation under the Caribbean Basin Initiative (CBI) trade program allows qualified Bahamian goods to enter the United States duty-free.

The Bahamian government continues to follow the policy implemented in the 1995–1996 budget in which the annual amount of new borrowings would be no greater than the amount of debt redemption. The 2000–2001 balanced budget totaled $998 million with no new taxes. Government outlays for education, health, social benefits and services, housing and other social services accounted for the majority of the Government's total expenditure. Debt service accounted for a substantial portion, $177 million or 18.9 percent of the recurrent expenditure. Again, the budget emphasized the government's resolve to expand the delivery of priority services, while moving closer to eliminating the deficit on recurrent expenditure by 2001. As a result, the government's focus remains on expenditure restraint, with anticipated revenue increases from economic growth and more efficient revenue collection rather than tax increases.

Recurrent revenue for 2000–2001 is projected to increase to $998 million. This represents an increase of 7.7 percent over the projected revenue for 1999/2000. Although significantly lower than the projected rate of growth in 1999/2000, which has been exceptionally robust, this rate of increase is clearly within the range of revenue performance in recent years.

The 2000–2001 budget emphasized duties to promote e-commerce. The Bahamian government's policy requires that internet access is provided to all Bahamian schools free of charge and that the cost of this access will be allocated among all telecommunications providers. In order to promote this, custom duties on computer hardware, computer parts, computer paper, and cameras, including still image versions, were eliminated.

In 1998, the Bahamian government eliminated customs duties for computer software, discs and computer tapes, farming pesticides, jewelry manufacturing items and various medical items, which also benefited from a reduction in stamp levies from seven to two percent. In addition, the customs tariff was lowered on chicken, combination TV and radio appliances, combination TV and VCR appliances, and golf carts. The 1999–2000 budget cut tariff rates on imported video and audio tapes and discs from 65 to 15 percent. This move, which comes on the heels of a government decision to begin enforcement of its new Copyright Law, will help lower the cost of legitimate videos and encourage local video retailers to evolve away from pirated products.

The government believes that the move toward hemispheric free trade by the year 2005 will involve restructuring its revenue sources. As part of its overall strategy to simplify and harmonize customs import duties, the government consolidated the current 123 separate import duty rates to 29 rates as of July 1, 1997. Rates have been reduced or eliminated on a variety of imported goods, ranging from construction materials (nails, cement, sheet rock, plywood, etc.) to computers and computer parts, musical instruments and consumer electronic appliances. The government hopes to recover these lost revenues through increased collection enforcement, reduced administrative costs, increased business generation and enhanced local purchasing.

Commercial banks lowered the prime lending rate from 6.75 to 6.00 percent in September 1999.

2. Exchange Rate Policy

The Bahamian dollar is pegged to the U.S. dollar at an exchange rate of 1:1, and the Bahamian government is committed to maintaining parity.

3. Structural Policy

Price controls exist on 13 breadbasket items, as well as on gasoline, utility rates, public transportation, automobiles, and automobile parts. The rate of inflation is estimated at 1.9 percent as of June 2000.

The Bahamas is recognized internationally as a tax haven. The government does not impose personal or corporate income, inheritance, or sales taxes. In addition, the government lowered taxes and reduced the stamp duty on various tourism-related items including: liqueurs and spirits, jewelry and watches, perfumes, toilet water, table linens, non-leather designer handbags, and cigarettes. The government hoped these measures would have increased the country's competitive edge in the tourism sector. The intended results of these incentives have not yet been realized because the downtown area was not able to consistently attract enough tourists, especially cruise ship passengers.

Certain goods may be imported conditionally on a temporary basis against a security bond or deposit that is refundable upon re-exportation. These include: fine jewelry, goods for business meetings or conventions, traveling salesman samples, automobiles or motorcycles, photographic and cinematographic equipment, and equipment or tools for repair work.

In 1993 the Bahamian government repealed the Immovable Property (Acquisition by Foreign Persons) Act, which required foreigners to obtain approval from the Foreign Investment Board before purchasing real property in the country, and replaced it with the Foreign Persons (Landholding) Act. Under the new law, approval is automatically granted for non-Bahamians to purchase residential property of less than five acres on any single island in The Bahamas, except where the property constitutes over fifty percent of the land area of a cay (small island) or involves ownership of an airport or marina. The government has now decided to discontinue sales of islands to foreigners to allay concerns by locals that too much Bahamian land is sold to foreigners. Prime Minister Ingraham announced in Parliament on June 2000 that foreign capital inflows for the decade of the 1990s went from $84.6 million in 1990 to $820.8 in 1999.

Foreign persons are still eligible for a two-year real property tax exemption if they acquire undeveloped land in The Bahamas provided that substantial development occurs during the first two years of the purchase. The property tax structure for foreign property owners is as follows:

$1–$3,000—the standard tax is $30.00.
$3,001–$100,000—tax is 1 percent of the assessed value.
Over $100,000—tax is 1½ percent of the assessed value.

This has stimulated the second home/vacation home market and revived the real estate sector. In addition, the government lowered the rate of stamp duty on real estate transactions in 1995. The stamp duty reduction ranges from two percent on transactions under $20,000 to eight percent on transactions over $100,000.

The government also receives revenues from a $15 per person airport and harbor departure tax.

Although The Bahamas encourages foreign investment, the government reserves certain businesses exclusively for Bahamians, including restaurants, most construction projects, most retail outlets, and small hotels. Other categories of businesses are eligible solely as joint ventures.

The government has announced plans to privatize and deregulate The Bahamas Telecommunication Corporation (Batelco) and other public utilities. It has also established a Public Utilities Commission to regulate local public utilities corporations.

On April 30, 1998 Prime Minister Hubert Ingraham officially launched the new Bahamas Financial Services (BFS) Board, a joint private and public sector board dedicated to promoting The Bahamas as a financial services center. Since its inception, BFS has conducted promotional trips to the United States and Europe.

A Security Industries Act authorizes a new, privately operated stock market. The legislation envisions a two-tier exchange with one market for foreign investors and companies. The Bahamian Stock Market is now up and running with 15 stocks.

The Bahamas Investment Authority, a "one-stop shop" for foreign investment, was established in 1992, comprising the Bahamas Agricultural and Industrial Corporation and the Financial Services Secretariat. The Authority facilitates and coordinates local and international investment and provides overall guidance to the government on all aspects of investment policy.

Other measures providing trade and investment incentives include: the International Business Companies Act, simplifying procedures and reducing costs for incorporating companies; the Industries Encouragement Act, providing duty exemption on machinery, equipment, and raw materials used for manufacturing; the Hotel

Encouragement Act, granting refunds of duty on materials, equipment, and furniture required in construction or furnishing of hotels; the Agricultural Manufacturers Act, providing exemption for farmers from duties on agricultural imports and machinery necessary for food production; the Spirit and Beer Manufacturers Act, granting duty exemptions for producers of beer or distilled spirits on imported raw materials, machinery, tools, equipment, and supplies used in production; and the Tariff Act, granting one-time relief from duties on imports of selected products deemed to be of national interest.

The Hawksbill Creek Agreement of 1954 granted certain tax and duty exemptions on business license fees, real property taxes, and duties on building materials and supplies in the town of Freeport on Grand Bahama Island. In July 1993, the government enacted legislation extending most Hawksbill Creek tax and duty exemptions through 2054, while withdrawing exemptions on real property tax for foreign individuals and corporations. The Prime Minister declared, however, that property tax exemptions might still be granted to particular investors on a case-by-case basis.

The Casino Taxation Act was amended in October 1995 to allow for the establishment of small-scale casinos through the reduction of the basic tax and winnings tax rates for casinos of less than 10,000 square feet. The basic tax was reduced from $200,000 to $50,000 for casinos with floor space of less than 5,000 square feet. The tax rises to $100,000 for casinos of 5,000–10,000 square feet. Unlike the winnings tax rate for traditional casinos (25 percent of the first $20 million), small casinos pay a progressive winnings tax rate of 10 percent on the first $10 million of gross winnings, and 15 percent thereafter. In addition, In June 2000, Sun International lost its government tax concession because it failed to proceed with its commitment to commence the 700-room Phase III of its resort complex on July 1, 2000. The Bahamian government originally granted the $3 million tax incentive package in return for Sun's commitment to construct 1200 additional hotel rooms on Paradise Island, but part of these incentives were to be suspended if work did not begin on replacement of the old Holiday Inn and Paradise Hotels by January 2000. Sun International's Chairman and CEO Sol Kerzner said Sun had to commit all its development resources to repairing last year's hurricane damage and developing its Ocean Club Resort, golf course and time share project (part of its Phase II development). Kerzner also said that the labor environment (shortage of skilled workers) and massive overspending on the project's first two phases resulted in his decision to halt Phase III.

4. Debt Management Policies

The National Debt, which comprises Government Direct Debt and Contingent Liabilities which are the Government Guaranteed borrowings of the Public Corporations, amounted to $1.87 billion at the end of 1999. This represented 40.9 percent of GDP, as compared with the levels of 43.0 percent and 42.1 percent at the end of 1997 and 1998, respectively.

5. Significant Barriers to U.S. Exports

The Bahamas is a $700 million plus market for U.S. companies. There are no significant non-duty barriers to the import of U.S. goods, although a substantial duty applies to most imports. Deviations from the average duty rate often reflect policies aimed at import substitution. Tariffs on items produced locally are at a rate designed to provide protection to local industries. The Ministry of Agriculture occasionally issues temporary bans on the import of certain agricultural products when it determines that a sufficient supply of locally grown items exits. The government's quality standards for imported goods are similar to those of the United States.

The Ministry of Agriculture restricted banana imports in October 1995, in trying to create a monopoly for locally grown bananas. The restrictions have been extended to include other varieties of produce for which the Ministry determines that demand can be met by local farmers (e.g., Christmas poinsettias, romaine lettuce, yellow squash, and zucchini). In June 1996, the Ministry announced a ban on the importation of fruits, vegetables, flowers, plants or other propagate materials from Caribbean countries unless the Department of Agriculture is assured that the country is free of the pink (or hibiscus) mealy bug. Shipments must be accompanied by a phytosanitary certificate issued by the Ministry of Agriculture in the country of origin. The Ministry continues to enforce its ban on imports of citrus plants and fruit from Florida, instated in 1995 because of reported outbreaks of canker disease. Imports of citrus plants are permitted from states other than Florida.

6. Export Subsidies Policies

The Bahamian government does not provide direct subsidies to export-oriented industries only to state-owned corporations. The Export Manufacturing Industries Encouragement Act provides exemptions from duty for raw materials, machinery, and equipment to approved export manufacturers. The approved goods are not subject to any export tax.

7. Protection of U.S. Intellectual Property

The Bahamas is a member of the World Intellectual Property Organization (WIPO) and a party to the Paris Convention on industrial property and the Bern Convention on copyright (older versions for some articles of the latter are used). It is also a member of the Universal Copyright Convention. Parliament has passed a new copyright law, which is intended to provide better protection to international holders of copyrights. The government enacted the law in January 2000.

Copyrights: The Bahamas has enacted a copyright law and implementing regulations that create a compulsory license for unauthorized retransmission by cable television systems of any copyrighted work transmitted over its territory capable of being received, including encrypted signals. This is a violation of The Bahamas' obligations under the Bern Convention. The Bahamian Government is considering amending the law to prohibit the practice.

The majority of videos available for rent are the result of unauthorized copying of videotapes from promotional tapes provided by movie distributors, U.S. hotel "pay-for-view" movies and shows, or satellite transmissions. It is doubtful that pirated videotapes are exported. Since video retailers complained that it is too expensive to import original videotapes, the government reduced the import duty for imported video and audiotapes and discs to encourage them to evolve away from pirated products. In May 1997 the government passed a bill to amend the Copyright Act to provide for payment of equitable royalties to copyright owners (particularly Bahamian musicians) for works broadcast on radio and television.

8. Workers Rights

a. *Right of Association:* The constitution specifically grants labor unions the rights of free assembly and association. Unions operate without restriction or government control, and are guaranteed the right to strike and to maintain affiliations with international trade union organizations.

b. *Right to Organize and Bargain Collectively:* Workers are free to organize, and collective bargaining is extensive for the estimated 25 percent of the work force that are unionized. Collective bargaining is protected by law and the Ministry of Labor is responsible for mediating disputes. In addition, the government established the Industrial Tribunal in 1997 to handle labor disputes. The Industrial Relations Act requires employers to recognize trade unions.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited by the Constitution and does not exist in practice.

d. *Minimum Age for Employment of Children:* While there are no laws prohibiting the employment of children below a certain age, compulsory education for children up to the age of 16 years and high unemployment rates among adult workers effectively discourage child employment. Nevertheless, some children sell newspapers along major thoroughfares and work at grocery stores and gasoline stations, generally after school hours. Children are not employed to do industrial work in The Bahamas.

e. *Acceptable Conditions of Work:* The Fair Labor Standards Act limits the regular workweek to 48 hours and provides for at least one 24-hour rest period. The Act requires overtime payment (time and a half) for hours in excess of the standard. The Act permits the formation of a wages council to determine a minimum wage. To date no such council has been established. However, in 1996 the government instituted a minimum wage of $4.12 an hour for non-salaried public service employees. The Parliament is considering a new minimum labor standards act which will cover employees in both the public and private sectors. This act contains new guarantees of employees' rights to paid vacations, sick leave, redundancy payments and protection against unfair dismissal.

The Ministry of Labor is responsible for enforcing labor laws and has a team of several inspectors who make on-site visits to enforce occupational health and safety standards and investigate employee concerns and complaints. The Ministry normally announces these inspections ahead of time. Employers generally cooperate with the inspections in implementing safety standards. A 1988 law provides for maternity leave and the right to re-employment after childbirth. Workers rights legislation applies equally to all sectors of the economy. A new Minimum Labor Standards Act including the Employment Act, Health and Safety at Work Act, Industrial Tribunal and Trade Disputes Act, and the Trade Union and Labor Relations Act, are currently under consideration. When enacted, these bills may give the government the right to establish wage minimums for the private sector, shorten the work week, increase paid vacations, guarantee paid sick leave and severance pay, and grant employees new protections against unfair dismissal. Local business leaders complain that the draft law is too restrictive and the government has given signs that it may revise the proposed laws.

f. *Rights in Sectors with U.S. Investment:* Authorities enforce labor laws and regulations uniformly for all sectors and throughout the economy, including within the export processing zones.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		15
Total Manufacturing		89
Food and Kindred Products	0	
Chemicals and Allied Products	76	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	–1	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	14	
Wholesale Trade		75
Banking		–2,193
Finance/Insurance/Real Estate		2,871
Services		154
Other Industries		55
TOTAL ALL INDUSTRIES		1,065

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

BOLIVIA

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	1999[6]	2000e
Income, Production and Employment[1]				
Nominal GDP	7,647	8,213	8,550	8,750
Real GDP Growth (pct)	4.2	4.7	0.6	2.0
GDP by Sector (pct share)				
Agriculture	14.1	14.0	14.1	14.6
Manufacturing	16.8	16.7	16.6	17.0
Services	33.2	33.0	30.1	29.8
Government	8.9	8.9	8.9	9.3
Per Capita GDP (US$)	969	989	1,087	1,009
Labor Force (million)	2.4	2.5	2.6	2.6
Unemployment Rate (pct)[2]	4.1	4.3	6.1	5.8
Money and Prices (annual percentage growth):				
Money Supply Growth (M2)[3]	27.5	12.7	–3.0	1.5
Consumer Price Inflation	7.0	4.4	3.1	4.5
Average Exchange Rate (Bs/US$)	5.26	5.51	6.3	6.4
Trade and Balance of Payments:				
Total Exports FOB	1,166	1,286	1,096	1,150
Exports to United States FOB	264	204	222	N/D
Total Imports CIF	1,851	2,408	1,800	1,770
Imports from United States CIF	443	626	413	N/D
Trade Balance	–685	–1,122	–704	620
Balance with United States	–179	–333	–191	N/D
Current Account Deficit/GDP	–9.0	–9.9	–7.0	6.9
External Public Debt	4,600	4,800	4,850	4,910
Debt Service Payments/GDP (pct)	4.1	4.2	3.5	3.6

Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	1999 [6]	2000 e
Fiscal Deficit/GDP (pct)	3.3	4.2	4.0	4.1
Gold and Foreign Exchange Reserves	1,189	1,193	1,222	1,100
Aid from United States [4]	120	112	114	215
Aid from All Other Sources [5]	530	468	410	N/D

[1] UDAPE, National Institute of Statistics (INE), Central Bank of Bolivia.
[2] For urban areas; data does not consider underemployment.
[3] Include National Currency Deposits indexed to U.S Dollar and U.S Dollar Deposits
[4] Sources: U.S. Census Bureau and embassy estimates.
[5] Aid obligated.
[6] Projections.
e Estimated.

1. General Policy Framework

Eighteen years after its return to democracy, Bolivia continues to consolidate a series of structural reforms that further orient the economy to the demands of the market and encourage greater efficiency by exposing it to increasing international competition. Parallel reforms in the judicial system promise to create a more reliable rule of law in the coming years.

The foundation of this new economic system was the "capitalization"/privatization of five large state-owned corporations and the establishment of a regulatory system to monitor the functioning key sectors. The capitalization program has succeeded in promoting steady rates of growth of private investment and savings, principally from the United States and in the hydrocarbons sector. This investment portends enhanced prospects for economic growth in the coming years. The government projects that the economy will grow by 4.5 percent in 2000, with inflation in consumer prices expected to be around 4.5 percent. However, after the social unrest of September and October 2000, which resulted in widespread road blockages and demonstrations and brought commerce to a virtual halt for several weeks, this figure will most likely be revised downward.

Macroeconomic indicators have improved steadily since the government undertook stabilization and structural reforms in the mid-1980s. Commercial bank deposits have more than doubled since 1991, to over $4.2 billion (July 2000). Persistent trade deficits since 1991 have been offset by large inflows of foreign assistance and private investment, allowing official foreign exchange reserves to grow to a record $1.1 billion (March 2000). Net reserves are around eight months of imports. Despite continuing improvements in tax collection, the budget deficit for the non-financial public sector increased to 4 percent in 1998 and approximately 4.2 percent in 1999, largely as a result of pension reform.

The money supply (M1) has grown steadily since 1991, with M1 now averaging around 21 percent of GDP. Total liquidity represents approximately 45 percent of the GDP. M4 growth rates have decreased significantly since 1996 reaching one digit level (2.3 percent) during 1999. The published figures for money in circulation are misleading, however, since there are billions of dollars in circulation side-by-side with the local currency, the boliviano. Dollars are a legal means of exchange, and contracts can be written in dollars. Banks offer dollar accounts and make loans in dollars. In fact, at the end of July 2000 nearly 94 percent of the $4.2 billion of deposits in the Bolivian financial system was denominated in dollars.

Low rates of inflation at home and abroad have helped to lower interest rates. In March 2000 the average rate paid on dollar deposits was approximately 8.83 percent, and the average rate charged on dollar loans was 18.93 percent. Increased bank competition and new foreign investment in the sector will likely cut financial spreads, making credit still cheaper in the near-term. Although the Bolivian banking system shows high levels of uncommitted resources, interest rates have not decreased. However, larger financial spreads during 1999 and 2000 resulted from a restricted monetary policy and the international financial crises.

2. Exchange Rate Policy

There are no restrictions on convertibility or remittances. The official exchange rate is set by a daily auction of dollars managed by the central bank. Through this mechanism the central bank has allowed the Boliviano to depreciate slowly to preserve its purchasing power parity. The rate in the parallel market closely tracks the official exchange rate. The official exchange rate fell with respect to the dollar by 3.3 percent in 1997, 4 percent in 1998, and by 6.3 percent in 1999. During 2000, the exchange rate fell by about 4.33 percent as of the end of August.

3. Structural Policies

A variety of laws have liberalized the economy significantly since the sea change seen in Bolivia's economic policies in the mid-1980s. In 1990 the government simplified tariffs to 5 percent for capital goods and 10 percent for all other imports. In
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7. Protection of U.S. Intellectual Property

Bolivia belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Bern Convention, Rome Convention, and the Nairobi Treaty. In 1999 the U.S. Trade Representative placed Bolivia on the "Special 301" Watch List.

Weak enforcement of existing laws has done little to discourage piracy in Bolivia. However, there have been some recent positive developments: in 1997 the government created the National Intellectual Property Service that for the first time will unify the administration of patents, trademarks, copyrights, and other intellectual property. Earlier, the government enacted a Copyright Law (1992) that, with some key changes enacted this year in Bolivia's Code of Criminal Procedure (which will take effect in March 2001), should create the proper legal environment to promote IPR protection. The government has proposed a draft Intellectual Property Law that it claims will bring Bolivia's protection for IPR up to the standards specified in the WTO TRIPS Agreement. However, there is doubt whether the current draft law is fully TRIPS compliant. Creating awareness in the judiciary and among the public of the rights of IPR holders is another formidable challenge facing the National Intellectual Property Service. According to a 1998 study by the Business Software Alliance and the Software and Information Industry Association, Bolivia has the highest rate of software piracy in Latin America with an estimated 87 percent of all software sold in the country of illegal origin. The U.S. copyright industry (represented by the International Intellectual Property Alliance) estimated that trade losses due to IPR infringement in Bolivia in 1998 amounted to $34.8 million: $20 million from music, $7.8 million from software, $5 million from books, and $2 million from films.

8. Worker Rights

a. *The Right of Association:* Bolivia's antiquated labor law assures workers the right to form and join organizations of their choosing. The Labor Code requires prior governmental authorization to establish a union, permits only one union per enterprise and allows the government to dissolve unions; the code, however, has not been strictly enforced in recent years. While the code denies civil servants the right to organize and bans strikes in public services, nearly all civilian government workers are unionized. Workers are not penalized for union activities.

In theory, the Bolivian Labor Federation (COB) represents virtually the entire work force; in fact, approximately one-half of the workers in the formal economy, or about 15 percent of all workers, belong to labor unions. Some members of the informal economy also participate in labor organizations. Workers in the public sector frequently exercise the right to strike. While solidarity strikes are illegal under the current labor code, the government does not prohibit such strikes.

The COB's numerous strikes to protest the government's economic reforms are generally receiving decreased support. The COB demonstrations that habitually have disrupted public order in major cities continued in the first half of 2000. The leadership of the urban teachers' union, the most aggressive affiliate within the COB, has conducted several strikes lasting days in opposition to the government's ongoing efforts at educational reform. A teachers' strike in February 1999 shut down the public schools for almost the entire month.

Unions are not free from influence by political parties. Most parties have labor committees that try to sway union activity, causing fierce political battles within unions. Most unions also have party activists as members.

The Labor Code allows unions to join international labor organizations. The COB became an affiliate of the formerly Soviet-dominated World Federation of Trade Unions in 1988.

b. *The Right to Organize and Bargain Collectively:* Workers may organize and bargain collectively. Collective bargaining (voluntary direct negotiations between unions and employers without participation of the government) is limited but growing.

The COB contends that it still is the exclusive representative of all Bolivian workers. Consultations between government representatives and COB leaders are common but have little effect on wages or working conditions. Major structural reforms have further eroded the COB's legitimacy as the sole labor representative. Private employers may use public sector settlements as guidelines for their own adjustments and in fact often exceed them. These adjustments, however, usually result from unilateral management decisions or from talks between management and employee groups at the local shop level, without regard to the COB.

The law prohibits discrimination against union members and organizers. Complaints go to the National Labor Court, which can take a year or more to rule. Union leaders say problems are often moot by the time the court rules. Labor law and practice in the seven special free trade zones are the same as in the rest of Bolivia.

c. *Prohibition of Forced or Compulsory Labor:* The law prohibits forced or compulsory labor, including forced and bonded labor by children. Reported violations were the unregulated apprenticeship of children, agricultural servitude by indigenous workers and some individual cases of household workers effectively imprisoned by their employers. In addition, women were trafficked for the purpose of prostitution.

d. *Minimum Age for Employment of Children:* The Code prohibits employment of persons under 18 years of age in dangerous, unhealthy or immoral work. It permits apprenticeship for those 12 to 14 years of age; it is ambiguous, however, on conditions of employment for minors aged 14 to 17, a practice which has been criticized by the International Labor Organization (ILO). Urban children hawk goods, shine shoes and assist transport operators; rural children often work with parents from an early age. In fact, Bolivia has a serious child labor problem which it is only beginning to address. According to a May 1999 study commissioned by the ILO, approximately 369,385 children between the ages of 7 and 14 work (23 percent of that age group), usually to help provide for family subsistence, in uncontrolled and sometimes unhealthy conditions. Children are not generally employed in factories or formal businesses; when so employed, however, they often work the same hours as adults. Responsibility for enforcing child labor provisions resides in the Labor Ministry, but they generally are not enforced.

The past two governments attempted to revise the Labor Code but desisted in the face of COB opposition. The present government is obliged to legislate reforms to the Code—including greater labor flexibility—under the terms of HIPC, but has yet to do so.

e. *Acceptable Conditions of Work:* The financial law establishes a minimum wage of Bs 355 per month (approximately $55), bonuses and fringe benefits. The minimum wage does not provide a decent standard of living, and many workers earn more. Its economic importance resides in the fact that certain benefit calculations are pegged to it. The minimum wage does not cover members of the informal sector who constitute the majority of the urban workforce, nor does it cover farmers, some 30 percent of the working population.

Only half the urban labor force enjoys an 8-hour workday and a workweek of 5 or 5½ days, because the maximum workweek of 44 hours is not enforced. The Labor Ministry's Bureau of Occupational Safety has responsibility for protection of workers' health and safety, but relevant standards are poorly enforced; work conditions in the mining sector are particularly bad. However, the government has recently requested technical assistance in the occupational safety area from the United States.

f. *Rights in Sectors with U.S. Investment:* The majority of U.S. investment is in the sectors of hydrocarbons, power generation and mining. The rights of workers in these sectors are the same as in other sectors. Conditions and salaries for workers in the hydrocarbons sector are generally much better than in other industries because of stronger labor unions in that industry.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		4
Total Manufacturing		0
Food and Kindred Products	0	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		([1])
Banking		([1])
Finance/Insurance/Real Estate		0
Services		7
Other Industries		186
TOTAL ALL INDUSTRIES		204

([1]) Suppressed to avoid disclosure of data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

BRAZIL

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP [2]	775	530	550
Real GDP Growth (pct) [3]	–0.1	0.8	3.8
GDP By Sector (pct)			
Agriculture	8.4	8.7	9.0
Industry	34.0	36.0	37.0
Services	57.6	55.3	54.0
Per Capita GDP (US$) [4]	4,800	3,200	3,320
Labor Force (millions)	76.9	79.3	80.0
Unemployment Rate (pct)	7.6	7.6	8.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	24.4	23.0	26.0
Consumer Price Index [5]	2.5	8.0	5.8
Exchange Rate (R/US$ annual average)			
Commercial	1.15	1.82	1.85
Balance of Payments and Trade:			
Total Exports FOB [6]	51.1	48.0	51.0
Exports to United States [6]	9.8	10.8	12.0
Total Imports FOB [6]	57.7	49.0	51.0
Imports from United States [6]	13.7	11.8	12.0
Trade Balance [6]	–6.6	–1.0	0.0
Balance with United States [6]	–3.9	–1.0	0.0
Fiscal Deficit/GDP (pct) (– = surplus).			
Nominal	8.0	9.5	4.0
Primary (inflation adjusted)	0.0	–3.0	–3.3
Current Account Deficit/GDP (pct)	4.33	4.2	4.1
External Public Debt [7]	95.4	100.8	112.0
Debt Service/GDP (pct)	1.5	2.9	3.0
Gold and Foreign Exchange Reserves (int'l liquidity)	44.6	36.3	28.0
Aid from United States (US$ millions) [8]	10.9	13.9	13.3
Aid from Other Countries	N/A	N/A	N/A

[1] Estimates except where noted.
[2] GDP at market prices.
[3] Percentage changes calculated in local currency.
[4] At current prices.
[5] Source: INPC (National CPI).
[6] Merchandise trade; Source: Ministry of Industry, Commerce and Tourism (MICT). Trade totals are preliminary for entire year. U.S. totals are extrapolated from January-June data.
[7] Non-financial public sector (excludes Petrobras and CVRD).
[8] USAID only.

1. General Policy Framework

Brazil underwent an important economic transition in 1999 and is currently embarked on a year of recovery. The Emerging Markets Crisis of 1998 interrupted the progress Brazil had been making in consolidating its stabilization program. Following the introduction of a new monetary unit (the "real") in 1994 and the dismantling of "indexation" mechanisms that had automatically transmitted price increases throughout the economy, domestic inflation fell abruptly. From almost 2500 percent in 1993, consumer price inflation fell to 3 percent by 1998 before rising to 8 percent in 1999 due to currency depreciation.

The Real Plan initially created more buying power for many Brazilian consumers due to disappearance of the so-called "inflation tax" which hit the poor hardest and to a 40 percent increase in the minimum wage in 1995. While price stabilization undeniably benefited the poor, lifting an estimated 13 million people above the official poverty line, Brazil still has one of the most unequal income distributions in the world. A consumption-led boom that began in 1994 due to higher real incomes and improved access to consumer credit ended in mid-1997.

Price stability came with a steep price tag for Brazil in terms of lower economic growth in the absence of fiscal reforms and spending restraint. In particular, Brazil's central bank had to keep real interest rates high to defend an overvalued currency, while at the same time attracting sufficient foreign capital to make up for public sector dissaving. From 5.9 percent in 1994, real GDP growth declined to 2.8 percent in 1996 and 3.5 percent in 1997. Due to the slowdown following the Asian Financial Crisis in late 1997, growth in 1998 was flat. Following the Emerging Markets Crisis in August, the economy officially entered into a recession in the second half of 1998. Despite the announcement of a three-year fiscal stabilization plan and negotiation of a $41.5 billion assistance package with the IMF and other lenders, declining confidence in Brazil and capital flight provoked an abrupt switch to a floating rate regime in January 1999. After an initial overreaction, the currency ended the year at 1.8 to the dollar. On an average nominal exchange rate basis, the currency depreciated almost 60 percent against the dollar from 1998 to 1999. As of October 2000, the exchange rate is approximately 1.9 to the dollar.

Dire predictions of sharply lower growth and higher inflation in 1999 were not realized, with growth coming in at one percent and inflation just under nine percent. At the same time, predictions of a substantial trading surplus were also frustrated as the excess of imports over exports was $1.2 billion. Main factors underlying and inflation performance were the stability already provided by the Real Plan, progress on fiscal reforms, adoption of an inflation-targeting monetary policy in mid-1999, and fiscal stringency. Foreign investor confidence was also surprisingly robust as foreign direct investment inflow totaled $30 billion for the year, an all-time record. At the same time, exchange rate volatility, lack of export finance, lag effects, weak demand in Asia and Latin America, and declining basic product prices undermined export performance.

Export-led industrial recovery began to emerge in the fourth quarter of 1999. Intermediate good production has been particularly strong both to satisfy domestic demand and foreign consumption. Industrial and agricultural production were up strongly for the first half of 2000 compared to the same period in 1999 and employment has been trending upward. The current consensus forecast is for 3.8 percent GDP growth in 2000 and 4.2 percent in 2001, with trade in 2000 being essentially balanced.

In July 1999 Brazil adopted an inflation targeting policy framework that relies on monetary policy to achieve target ranges of inflation. Inflation was low for the first six months of 2000, jumped in July and August because of higher fuel and food prices, and then dropped again in September. The 12-month inflation through September was 7.7 percent, and as of October the market forecast for 2000 inflation is slightly over the Central Bank's inflation target of 6 percent. The Central Bank has lowered the overnight interest rate, its key inflation-targeting tool, from 19 percent at the beginning of the year, to 16.5 percent.

In addition to meeting and indeed surpassing its primary surplus goals since 1998, Brazil has made significant progress on structural fiscal reforms. Notable successes include introduction of an actuarial factor into calculation of public pensions for private sector workers (INSS), passage of the budget guidelines and fiscal responsibility laws, limitation of public worker social security benefits, and completion of a massive debt rescheduling with state and municipal governments. Still lacking as of late 2000 are completion of a long-awaited domestic tax reform simplification/consolidation and the second phase of social security reform permitting higher contributions from retired public servants, as well as needed judicial reforms

Concerned about a widening current account deficit, which reached 4.2 percent of GDP in 1997 and 4.3 percent of GDP in 1998, the government began to adopt measures in 1997 aimed at discouraging imports and encouraging exports. These included imposing restrictions on short-term import finance and consumer credit, expanding the official export credit program, eliminating tariff exemptions for a long list of capital goods, adoption of a customs valuation table, increasing import documentation requirements, and tightening standards and enforcement. Even so, access to Brazilian markets in most sectors is generally good. Most sectors are characterized by competition and participation by foreign firms through imports, local production and joint ventures. The import finance restriction was effectively ended in March 1999 and completely rescinded in October.

In December 1995 Brazil implemented a complex automotive products import regime. The regime expired at the end of 1999 and Brazil is currently engaged in negotiations with its Mercosur partners to develop a common Mercosur auto regime.

In 2000, Brazil's average applied tariff was 13.8 percent. Brazil currently maintains no applied tariff rates in excess of 35 percent, but does have safeguard measures in place for some imports, such as toys. A small number of imports are banned altogether, such as re-manufactured auto parts. Brazil and its Mercosur partners, Argentina, Paraguay and Uruguay, implemented the Mercosur Common External Tariff (CET) on January 1, 1995. The CET covers approximately 85 percent of 9,394 tariff items and ranges between zero and 23 percent. Most of the remaining 15 percent should be covered by 2001, and full coverage should be reached by 2006. Exceptions to the CET include telecommunications equipment, computers, some capital goods and products included on Brazil's national list of exceptions to the CET, such as footwear, powdered milk, automobiles, wine and consumer electronics. Brazil and its Mercosur partners implemented a temporary general across-the-board three percentage point tariff increase in late 1997 and early 1998 in response to balance of payments difficulties. The measure is due to expire at the end of 2000.

Chile and Bolivia became associate members of Mercosur in October 1996, and negotiations with the Andean Community began in November 1996.

The Brazilian Congress ratified the GATT Uruguay Round Agreements in December 1994 and Brazil became a founding member of the WTO.

2. Exchange Rate Policy

Brazil switched to a unitary, floating rate foreign exchange regime in early 1999. There is also an informal parallel market but volumes are small. The government has acted to remove impediments to a fully convertible currency, both for current and capital account transactions. In mid-2000 it eliminated numerous regulations affecting exchange transactions and consolidated all remaining requirements into one regulation.

When introduced in July 1994, the real was pegged at parity with the dollar but quickly appreciated. The Central Bank established a new system of trading bands in March 1995 and subsequently devalued very gradually, first within the bands and then by adjusting the bands upward. The bank formerly pursued a so-called "crawling peg" policy of nominal depreciation of the real against the dollar at a rate of about 7.5 percent per year. With a steady decline in international reserves following the Russian Crisis, the country was forced to devalue in January 1999 and switched to a floating rate system with Central Bank intervention only to contain volatility.

3. Structural Policies

Although some administrative improvements have been made in recent years, the Brazilian legal and regulatory system is not fully transparent. The government has historically exercised considerable control over private business through extensive and frequently changing regulations. As part of its efforts to keep inflation down, the government is reluctant to allow raises in public utility rates.

Brazil accelerated the privatization program initiated in 1990 to reduce the size of the government and improve public sector fiscal balances. Revenues peaked in 1997–98. Steel companies and most petrochemical companies owned by the government, the main exception being Petrobras, have already been privatized. The majority of voting shares in mining conglomerate Companhia Vale do Rio Doce (CVRD) was sold to the private sector in May 1997 and Telebras was split into 12 firms and privatized in July 1998. Several electric utilities have been privatized, and so-called band B cellular telephone concessions covering the whole country were sold in 1997 and 1998. ANATEL, the government's telecommunications regulatory agency, will conclude an auction of Personal Communications System Bands C–E by mid-March 2001. The pace of privatization slowed in 1999 and 2000, although the Parana state bank, Banestado was privatized in October 2000, and the Sao Paulo state bank Banespa is scheduled to be sold in November 2000. As of October 2000, Brazil realized $77.6 billion in direct sales revenues and a further $18.1 billion in retirement of public sector debt. The power and telecom sectors have each accounted for a third of total privatization proceeds to date.

Brazil's tax system is extremely complex, with a wide range of income, production, movement, consumption, and payroll taxes levied at the federal, state and municipal levels. Because of difficulties in passing comprehensive tax reform through Congress, the government has focused on limited revisions by executive order. In late 1995 it passed revisions to the corporate and individual income tax regimes. In 1996 it exempted exports and capital purchases from the state-collected value added tax and announced a single tax on the gross receipts of small and medium enterprises. While the overall objective remains simplification, the government imposed an additional tax on financial transactions as a temporary measure, although the tax has been extended until 2002. The government has announced plans to transform the current system into one where a value-added tax, state and city sales taxes, and a selective excise tax would replace the current system of multiple taxation. The proposal is strongly advocated by Brazil's private sector. Congress prepared an alternative proposal, but there has been little progress on either proposal in 2000. Currently, tax collections, at all levels, amount to about 31 percent of GDP.

4. Debt Management Policies

Brazil's total external debt by the end of 1999 was $241 billion, of which 41.7 percent was due to the public sector (excluding Petrobras foreign branches) and the remainder to the private sector. Total external debt fell slightly as of June 2000, to $233 billion. Debt service in 1999 represented 2.9 percent of Brazil's GDP. Brazil concluded a commercial debt rescheduling agreement (without an IMF standby program) in April 1994 after twelve years of negotiations and has fully complied with the commitments made in this agreement. Until the global financial crisis erupted in mid-1998, the terms of Brazilian debt obligations had lengthened and spreads narrowed on both public and private sector external debts. In November 1998 Brazil negotiated a $41.5 billion assistance program with the IMF and renegotiated the agreement in March 1999 following the decision to float the currency. Perceptions of Brazil's risk, and thus availability of foreign funding, depend on progress on the fiscal stabilization program announced by the government in October 1998 as well as on compliance with fiscal and monetary performance targets set in conjunction with the IMF. As of October 2000, Brazil was in compliance with its IMF targets and is expected to meet its inflation target (within the narrow one-percent band) for this year. In August 2000 Brazil issued over $5 billion in 40-year Global Bonds to retire a range of Brady bonds.

5. Significant Barriers to U.S. Exports

Since 1990, Brazil has made substantial progress in reducing traditional border trade barriers (tariffs, import licensing, etc), although tariff rates in many areas such as information technology and automobiles remain high. Significant non-border trade barriers remain.

Import Licenses: The Secretariat of Foreign Trade implemented a computerized trade documentation system (SISCOMEX) in early 1997 to handle import licensing. Licenses for many products were to be issued automatically. However, a wide variety of products were subject to non-automatic licensing. A primary concern has been the reported use of minimum reference prices by Customs officials both as a requirement to obtain import licenses and/or as a base requirement for import. Such measures have been characterized by Brazil as a "deepening" of the existing import licensing regime and as part of a larger strategy to prevent under-invoicing. However, the reported use of minimum price lists raises questions about whether Brazil's regime is consistent with its obligations under the WTO Agreement on Customs Valuation. In July 2000 the United States held WTO dispute settlement consultations with Brazil over the reference price issue. Earlier, the United States acted as an interested third party in WTO dispute settlement negotiations on this issue brought by the European Union.

Agricultural Barriers: In November 1998 the United States signed a protocol with Brazil clearing the way for imports of U.S. Hard Red Winter wheat. On November 28, 2000, Brazil lifted restrictions on the importation of U.S. Soft Red Winter wheat and Hard Red Spring wheat from U.S. gulf ports. The U.S. government will continue to work to resolve continuing import restrictions on shipments of U.S. wheat out of west coast ports.

The Brazilian import policy regarding GMO corn and soybeans is inconsistent and lacks transparency. The poultry industry in the northeast is dependent on corn imports, and GMO grain imports have been ruled permissible for feed use. However, Brazil has blocked the import of several shipments of Argentine GMO corn this year, due to pressure from consumer and environmental groups. As a result, importers cannot be certain that their shipments will not be held up at Brazilian ports and may be subject to costly delays and demurrage charges.

Brazil prohibits the entry of poultry and poultry products from the United States, alleging lack of reciprocity. Brazil had previously granted conditional approval for U.S. poultry exports, but this was withdrawn when the United States could not grant Brazil an exception to the standard U.S. approval process. Following the lead of the European Union, Brazil prohibits the importation of beef treated with anabolics; however, beef imports from the United States have been allowed on a waiver basis since 1991. In October 1995 Brazil prohibited the importation of live sheep from the United States due to scrapie (a sheep disease).

Services Barriers: Restrictive investment laws, lack of administrative transparency, legal and administrative restrictions on remittances, and arbitrary application of regulations and laws limit U.S. service exports to Brazil. Service trade opportunities in some sectors have been affected by limitations on foreign capital participation.

Some service trade possibilities have been restricted by limitations on foreign capital under the 1988 constitution. Unless approved under specific conditions, foreign financial institutions are restricted from entering Brazil or expanding pre-1988 operations. The Brazilian Congress approved five constitutional amendments in 1995 that eliminated the constitutional distinction between national and foreign capital; opened the state telecommunications, petroleum and natural gas distribution monopolies to private (including foreign) participation; and permitted foreign participation in coastal and inland shipping.

Foreign participation in the insurance industry has responded positively to market-opening measures adopted in 1996. However, problems remain with market reserves for Brazilian firms in areas such as import insurance and the requirement that state enterprises purchase insurance only from Brazilian-owned firms. In June 1996 the government legally ended the state's monopoly on reinsurance, but the monopoly has yet to end in practice and its persistence is keeping costs high for insurers, both domestic and foreign. The monopoly Brazil Reinsurance Institute is scheduled for privatization in 2001. U.S. and other foreign reinsurers have expressed concern with proposed regulations regarding the reinsurance market following the sale.

The United States and Brazil signed in early October 1999 a newly revised bilateral Maritime Agreement, effectively ending a period of tension generated over misunderstandings relating to preferences afforded to selected classes of cargo. The new agreement must still be ratified by the Brazilian Congress. Naval authorities attempted to collect lighthouse dues in 2000 from flag ships of countries, such as the United States, with bilateral maritime agreements, even though these dues were in violation of these agreements.

Investment Barriers: Various prohibitions restrict foreign investment in internal transportation, public utilities, media, shipping, and other "strategic industries." In the auto sector, local content and incentive-based export performance requirements were introduced in 1995, but expired in December 1999 consistent with a bilateral autos agreement between the United States and Brazil.

Foreign ownership of land in rural areas and adjacent to national borders remains prohibited under law number 6634. Despite investment restrictions, U.S. and other foreign firms have major investments in Brazil, with the U.S. investment stake more than doubling from 1994 to 1998.

There is no Bilateral Investment Treaty (BIT) between the United States and Brazil. Brazil has signed some 16 BITs with other countries, none of which has been ratified. The principal point of contention seems to be objection by the legislative branch over dispute settlement language.

Government Procurement: Brazil is not a signatory to the WTO Agreement on Government Procurement, and transparency in the procurement process could be improved. Remaining limitations on foreign capital participation in procurement bids can reportedly impair access for potential service providers, including in the energy and construction sectors. Brazilian federal, state and municipal governments, as well as related agencies and companies, follow a "buy national" policy, and rules permit the government to provide preferential treatment in government procurement decisions to foreign companies with production facilities in Brazil. However, Brazil permits foreign companies to compete in any procurement-related multilateral development bank loans and opens selected procurements to international tenders. To the extent that the privatization program in Brazil continues and nondiscriminatory policies are adopted, U.S. firms will have greater opportunities in Brazil.

Law 8666 of 1993, covering most government procurement other than informatics and telecommunications, requires nondiscriminatory treatment for all bidders, regardless of the nationality or origin of product or service. However, the law's implementing regulations allow consideration of non-price factors, give preferences to certain goods produced in Brazil and stipulate local content requirements for eligibility for fiscal benefits. Decree 1070 of March 1994, which regulates the procurement of informatics and telecommunications goods and services, requires federal agencies and parastatal entities to give preference to locally-produced computer products based on a complicated and nontransparent price/technology matrix

6. Export Subsidies Policies

In general, the government does not provide direct subsidies to exporters, but does offer a variety of tax and tariff incentives to encourage export production and encourage the use of Brazilian inputs in exported products. Incentives include tax and tariff exemptions for equipment and materials imported for the production of goods for export, excise and sales tax exemptions on exported products, and excise tax rebates on materials used in the manufacture of export products. Exporters enjoy exemption from withholding tax for remittances overseas for loan payments and marketing, and from the financial operations tax for deposit receipts on export products. Exporters are also eligible for a rebate on social contribution taxes paid on locally acquired production inputs.

An export credit program, known as PROEX, was established in 1991. PROEX is intended to equalize domestic and international interest rates for export financing and to directly finance production of tradeable goods. In 1999 $901 million was budgeted for PROEX with $460 million slated for equalization and $441 million for direct financing. $451 million was actually spend last year on equalization, but only $175 million went to financing. Historically, PROEX never used more than 30 percent of its allocated budget, but in 1998 utilized over 50 percent of its allocated resources for the first time, and 70 percent in 1999. In 1999 a WTO panel found PROEX interest equalization payments on regional aircraft to be a prohibited subsidy. The WTO Appellate Body upheld this finding. The Government of Brazil states that it has modified PROEX to bring it into conformity with WTO subsidy rules.

7. Protection of U.S. Intellectual Property

Brazil belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Bern Convention, Madrid Agreement, Rome Convention, Patent Cooperation Treaty, Strasbourg Agreement, Phonograms Convention, Nairobi Treaty, Film Register Treaty, and the Universal Copyright Convention. Brazil has not yet ratified the WIPO Treaties on Copyright and Performances and Phonograms. In 2000 the U.S. Trade Representative placed Brazil on the "Special 301" Watch List primarily as a result of serious concerns regarding copyright enforcement. In June 2000, the U.S. government held WTO consultations on the "local working" provision in Brazil's patent law that appears to be TRIPS inconsistent. Although Brazil has made progress toward improved protection for intellectual property rights, copyright piracy and lax copyright enforcement remain a serious problem.

In the past four years, Brazil has passed revised copyright, software, patent, and trademark legislation. Brazil's new Industrial Property Law took effect in May 1997, bringing most aspects of Brazil's patent and trademark regime up to the standards specified in the WTO TRIPS Agreement. However, the new law also includes a local working provision that appears to be TRIPS-inconsistent.

Patents: The Industrial Property Law provides patent protection for chemical and pharmaceutical substances, chemical compounds, and processed food products not patentable under Brazil's 1971 law, and provides patent protection for genetically altered micro-organisms. The law also extends the term for product patents from 15 to 20 years, and provides "pipeline" protection for pharmaceutical products patented in other countries but not yet placed on the market. The large backlog of pipeline patents is being processed. In April 1997, a Plant Variety Law was passed that provides protection to producers of new varieties of seeds.

Trade Secrets: The Industrial Property Law specifically allows criminal prosecution for revealing trade secrets of patented items, with a penalty of imprisonment for three months to a year or a fine. The regulations as written are narrower than the TRIPS Agreement. However, the government argues that since it incorporated Article 39 of the Agreement into law when the Uruguay Round agreements were ratified, in effect it provides a level of protection consistent with the TRIPS Agreement.

Trademarks: The Industrial Property Law improves Brazil's trademark laws, providing better protection for internationally known trademarks, but contains a long list of categories of marks that cannot be registered. U.S. industry has expressed concern with the continued high level of counterfeiting in Brazil, although some foreign firms have been successful in court actions against trademark infringement.

Copyrights: In February 1998, in an effort to raise Brazil's copyright protection to the level of the TRIPS Agreement, President Cardoso signed a new copyright law that generally conforms to international standards. Enforcement, however, remains a serious problem. The generally inefficient nature of Brazil's courts and judicial system, combined with resource constraints, and other law enforcement priorities have complicated the enforcement of intellectual property rights. The Brazilian government is working on a project to broaden criminal penalties and streamline the judicial process. The government is also working to create an interagency IPR committee, coordinated by the Ministry of Justice, to improve antipiracy enforcement, although this initiative remains stalled as of October 2000. The U.S. copyright industry reports that in 1998 its trade losses from piracy in Brazil were over $900 million. Problems have been particularly acute with regard to sound recordings and video cassettes.

Semiconductor Chip Layout Design: In April 1996, a bill to protect layout designs of integrated circuits was introduced, but the bill has languished.

8. Worker Rights

a. *The Right of Association:* Unions are free to organize in Brazil. Virtually all workers (except for the military, the military police and firemen) have the right to representation. The only significant limitation is "unicidade" (literally "one per city"), which restricts representation for any professional category to one union in a given geographical area. Both the government and the major labor confederations have argued in favor of removing this restriction, but the necessary constitutional amendment is still under consideration by Congress. Otherwise, unions remain independent of the government, but major unions tend to share links to various political.

b. *The Right to Organize and Bargain Collectively:* The constitution provides for the right to organize, and approximately 26 percent of the work force is. With government assistance, businesses and unions are working to expand and improve mechanisms of collective bargaining. For now, however, many issues normally resolved by collective bargaining come under the purview of Brazil's labor courts, which have the power to intervene in wage bargaining and impose settlements, or are resolved by mediation.

c. *Prohibition of Forced or Compulsory Labor:* Although the constitution prohibits forced labor, credible sources continue to report cases of forced labor in Brazil. The Catholic Church's Pastoral Land Commission (CPT) has documented cases of forced labor in some states, although the CPT reported that the total number of incidents declined from 1996 through 1998. Forced labor continues on farms producing charcoal for use in the iron and steel industries, and on sugar plantations. The federal government has created a task force, comprising seven different ministries, to combat forced labor, and the Ministry of Labor has augmented the task force with mobile inspection teams. These efforts have improved the situation considerably, though all concerned concede that forced labor continues to be a problem.

d. *Minimum Age for Employment of Children:* The Brazilian constitution prohibits work by children under the age of 16. Despite this prohibition, the Ministry of Labor estimates that nearly 3.8 million children under 16 years work. Sectors that have child labor include charcoal production, sugar cane harvesting , citrus fruit plantations, hemp growing, and mining, among others. A coalition of government agencies and NGOs have made effective efforts to limit child labor, notably through the implementation of "scholarships" for families who keep their children in school. The problem, however, persists.

e. *Acceptable Conditions of Work:* Brazil has a minimum wage of approximately 85 dollars (151 reals) a month, subject to increase, usually on an annual basis in May. Many workers, particularly those outside the regulated economy and in the northeastern part of Brazil, reportedly earn less than the minimum wage. The 1988 constitution limits the workweek to 44 hours and specifies a weekly rest period of 24 consecutive hours, preferably on Sundays. The constitution expanded pay and fringe benefits and established new protections for agricultural and domestic workers, though not all provisions are enforced. All workers in the formal sector receive overtime pay for work beyond 44 hours and there are prohibitions against excessive use of overtime. Unsafe working conditions exist throughout Brazil, though Brazilian occupational health and safety standards are consistent with international norms. The Ministry of Labor, responsible for monitoring working conditions, has insufficient resources for adequate inspection and enforcement of these standards.

f. *Rights in Sectors with U.S. Investment:* U.S. multinationals have invested in virtually all the productive sectors in Brazil. Nearly all of the Fortune 500 companies are represented in Brazil. In U.S.-linked enterprises, conditions usually do not differ significantly from the best Brazilian companies; at most U.S. multinationals, conditions are considerably better than the average.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		1,703
Total Manufacturing		20,225
Food and Kindred Products	2,149	
Chemicals and Allied Products	4,617	
Primary and Fabricated Metals	1,359	
Industrial Machinery and Equipment	1,647	
Electric and Electronic Equipment	1,850	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999—Continued

[Millions of U.S. Dollars]

Category	Amount	
Transportation Equipment	2,764	
Other Manufacturing	5,839	
Wholesale Trade		355
Banking		2,034
Finance/Insurance/Real Estate		5,225
Services		848
Other Industries		4,613
TOTAL ALL INDUSTRIES		35,003

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

CANADA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production, and Employment:			
Nominal GDP [2]	608.1	644.7	705.2
Real Growth Rate (pct)	3.3	4.5	3.7
GDP by Sector (pct):			
Goods	33	33	33
Services	67	67	67
Agriculture	2	2	2
Government	20	20	21
Per Capita GDP (US$)	19,673	21,138	22,748
Total Labor Force (000s)	15,418	15,721	16,150
Unemployment Rate (pct)	8.3	7.6	6.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) [3]	–0.6	3.6	6.3
Consumer Price Inflation	0.9	1.7	2.8
Exchange Rate: (C$/US$) [4]	1.4831	1.4858	1.4723
Balance of Payments and Trade:			
Global Merchandise Exports	217.5	242.7	271.3
Exports to United States	181.7	208.2	230.6
Global Merchandise Imports	204.6	219.9	238.1
Imports from United States	157.6	167.8	181.0
Global Merchandise Trade Balance	12.9	22.8	33.2
Balance with United States	24.1	40.4	49.6
Current Account Balance/GDP (pct)	–1.8	–0.4	1.2
Net Public Debt [5]	390.9	388.2	383.4
Debt Service/GDP (pct) [5]	4.5	4.3	4.0
Federal Budget Surplus/GDP (pct)	0.4	0.3	1.3
Official Int'l Reserves [3]	23.4	28.6	30.8
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 2000 data is embassy projection unless otherwise noted.
[2] Exchange rate conversion causes distortions in actual level.
[3] Actual as of September 30, 2000.
[4] January to September 2000 average.
[5] Canadian government data.

1. General Policy Framework

Canada has an affluent, high-tech industrial economy that closely resembles the United States in its per capita output, market-oriented economic system, and pattern of production. The Canadian economy grew by 4.5 percent in 1999, eclipsing its 3.3 percent growth in 1998, as it rode the wave of a booming U.S. economy. In the first half of 2000, real GDP growth averaged 5.2 percent, but the pace is expected to slow in the second half of the year, resulting in average growth of around 4.5 percent for all of 2000. In 2001 output is forecast to ease to a more sustainable 3–3.5 percent. These growth projections assume that U.S. growth will subside to nearer three percent in 2001, as U.S. Federal Reserve Board interest rate increases in late 1999 and early 2000 take effect.

Growth in Canada's export sector should continue to be fueled by ongoing strength in the U.S. economy and Canada's weak dollar. Global economic recovery, particularly in East Asia and Latin America, will further boost Canadian export revenues. However, the combination of Canada's low dollar and upward pressure from record high petroleum prices has pushed Canada's inflation rate to the upper limit of the Bank of Canada's one to three percent target band. Consequently, Canada's central bank is on an inflation watch and could further increase interest rates in 2001, which would dampen consumer spending and business investment. Not unlike the global economy, the major risk to the growth projection for Canada is the inflationary impact of rising oil prices, which could choke off growth in consumer spending and business investment.

The close proximity and integrated manufacturing sectors of Canada and the United States have resulted in the largest bilateral merchandise trade relationship in the world. In 1999 total two-way trade in goods and services between the United States and Canada was roughly $450 billion, or well over $1 billion each day. This was more than U.S. trade with the rest of the Western Hemisphere, and almost equal to total U.S. goods and services trade with the entire 15-country European Union. The United States and Canada also share one of the world's largest bilateral direct investment relationships. In 1999 the stock of Canadian foreign direct investment in the United States, including investments from its holding companies in the Netherlands, was $90.4 billion. At the same time, U.S. foreign direct investment in Canada was $111.7 billion.

2. Exchange Rate Policy

The Canadian dollar is a fully convertible currency, and exchange rates are determined by supply and demand conditions in the exchange market. There are no exchange control requirements imposed on export receipts, capital receipts, or payments by residents or non-residents. The Bank of Canada, which is the country's central bank, operates in the exchange market on almost a daily basis to maintain orderly trading conditions, but does not practice a policy of intervening to pursue exchange rate targets.

3. Structural Policies

Prices for most goods and services are established by the market. The most important exceptions are government services, services provided by regulated public service monopolies, most medical services, and supply-managed agricultural products (eggs, poultry and dairy products). The principal sources of federal tax revenue are corporate and personal income taxes and the goods and services tax (GST), a multistage seven percent value-added tax on consumption. The personal and corporate income tax burden, combining federal and provincial taxes and surcharges, is significantly higher than in the United States, although it varies by province.

4. Debt Management Policies

The Canadian federal government recorded a $8.5 billion budgetary surplus in FY1999–2000 (April 1–March 31), which was used to reduce the national debt. The paydown reflected the federal government's commitment to ongoing debt reduction and cut Canada's debt-to-GDP ratio to 58.9 percent from a peak of 71.2 percent four years earlier. Currently, the Canadian government projects the ratio to drop to 40 percent within the next four years. Canada can take pride in experiencing a larger decline in its debt-to-GDP ratio than any other country in the G–7. However, Canada's debt burden is still well above the G–7 average, ranking second highest after Italy. This is why the federal government remains committed to ongoing debt reduction initiatives. Such efforts will also serve to reduce Canada's debt servicing requirements, which currently absorb about 25 cents of every government revenue dollar.

5. Significant Barriers to U.S. Exports

The 1989 U.S.-Canada Free Trade Agreement and the 1994 North American Free Trade Agreement have eliminated most tariff and many nontariff trade barriers between the two countries. However, nontariff barriers at both the federal and provincial levels continue to impede access of U.S. goods and services to Canada or retard potential export growth. Canada maintains some restrictions on foreign investment and content in the so-called "cultural industries" and related sectors, including book and magazine publishing, broadcasting, and telecommunications. The United States objects to some of these restrictions and closely monitors new laws and regulations affecting these sectors.

In 1997 a WTO panel supported U.S. complaints against various Canadian measures that limited U.S. access to the Canadian publications market. In mid-1999 Canada replaced these measures with the Foreign Publishers Advertising Services Act, which would have made it a criminal offense, punishable by fines, for foreign-based publishers to supply advertising services directed at the Canadian market. Under an agreement negotiated with the U.S. government, smaller circulation foreign-based publishers are exempted from the Act, as are foreign-controlled publications that contain 12 percent or less of advertising measured by revenue in a given issue, directed primarily at the Canadian market. Canada committed to increasing this percentage to 15 percent on December 3, 2000 and to 18 percent on June 3, 2002.

Canada is a signatory to the GATS Agreement on Basic Telecommunications Services. Recent regulatory changes have opened both long-distance and local telephone services to competition. A monopoly by Teleglobe Inc. on overseas calling ended in 1999. In September 1998 Canada eliminated third country routing restrictions for international traffic routed to and from Canada through the United States. Canada's Telecommunications Act allows the federal regulator, the Canadian Radio-Television and Telecommunications Commission, to forbear from regulating competitive segments of the industry, and exempts resellers from regulation. Canada retains a 46.7 percent limit on foreign ownership and a requirement for Canadian control of basic telecommunications facilities. In March 2000, AT&T and Sprint filed a complaint against Canada's contribution charges (subsidies for universal service) regime under Section 1377 of the Trade Act. The Canadian government has undertaken a review of the regime for its own purposes. The U.S. government is awaiting the outcome of that review before taking further action.

The United States and Canada signed a five-year Softwood Lumber Agreement (SLA) in the spring of 1996. The SLA limits Canadian softwood lumber exports from four provinces (Ontario, Quebec, Alberta and British Columbia) to the United States until the beginning of April 2001, capping duty-free exports at 14.7 billion board feet a year, which represents about one-third of the U.S. market. For the next 650,000 board feet, the Canadian government must charge $50 per thousand board feet. For any additional amount, the fee is $100 per thousand board feet. Both the U.S. and Canadian federal governments began consulting with stakeholders in the winter of 1999–2000 to determine their positions on what should follow the expiry of the SLA.

Foreign access to the Canadian financial services sector has improved as a result of the NAFTA and the GATS. The WTO Agreement Implementation Act removed long-standing limitations on non-Canadian ownership of federally regulated financial institutions; lifted a market share limitation on foreign banks; and extended NAFTA thresholds for investment review and control to all WTO members. Banking falls exclusively under federal jurisdiction, while the regulation of securities companies falls under provincial control.

The banking industry in Canada is governed by the federal Bank Act. The Bank Act and other financial services laws are mandated for review every five years. Amendments to the Bank Act in 1992 and 1997 removed some irritants of doing business in Canada for U.S. and other foreign banks. Foreign banks can now opt out of Canada Deposit Insurance, and as of February 1999, can set up branches. Two types of foreign bank branches are currently permitted: full-service and lending. Full-service branches are authorized to take non-retail deposits of not less than C$150,000 (est. $100,000), while lending branches are not allowed to take any deposits and can borrow only from other financial institutions. The purpose of lending branches is to provide new sources of funds to businesses and credit card users. Full-service branches and foreign bank subsidiaries are not allowed to own lending branches.

In Canada's insurance market, companies can incorporate under provincial or federal law. Foreign ownership remains subject to investment review thresholds, and several provinces continue to subject foreign investments in existing, provincially incorporated companies to authorization. Insurance companies may supply their services either directly, through agents or through brokers. Life insurance companies are not generally allowed to offer other services (except for health, accident and sickness insurance), but may be affiliated with, and distribute the products of, a property and casualty insurer. As in banking, a commercial presence is required to offer insurance and reinsurance services in Canada. However, insurance companies may branch from abroad on condition that they maintain trustees assets equivalent to their liabilities in Canada. Insurance companies can own deposit-taking financial institutions, investment dealers, mutual fund dealers and securities firms. In addition, insurance companies may engage directly in lending activities on an equal footing with deposit-taking institutions. The car insurance industry is a publicly-owned monopoly in Quebec, British Columbia, Manitoba and Saskatchewan. All other provinces have regulated premiums.

Provincial legislation and liquor board policies regulate Canadian importation and retail distribution of alcoholic beverages. U.S. exporters object to provincial minimum import price requirements, and cost-of-service and packaging size issues hinder the importation of U.S. wine.

Canada applies various restrictions to imports of supply-managed products (dairy, eggs and poultry), as well as fresh fruit and vegetables, potatoes, and processed horticultural products. The United States continues to pursue these issues bilaterally.

Canadian customs regulations limit the temporary entry of specialized equipment needed to perform short-term service contracts. Certain types of equipment are granted duty-free or reduced-duty entry into Canada only if they are unavailable from Canadian sources. Although NAFTA has broadened the range of professional equipment permitted entry, it has not provided unrestricted access.

The Canadian Special Import Measures Act (SIMA) governs the use of anti-dumping and countervailing duties. Canada operates a partially bifurcated trade remedies system under SIMA. The Deputy Minister of Customs and Revenue Canada is responsible for initiating investigations and making preliminary and final determinations respecting dumping/subsidizing and preliminary determinations of injury. The Canadian International Trade Tribunal (CITT) is responsible for making final injury determinations. When the SIMA investigation process has resulted in levies imposed on U.S. products, these duties become an impediment to U.S. trade opportunity. In addition, customs reclassification of prepared food products to bring them under supply-managed categories is looming as a potential new problem area.

Transboundary environmental issues continue to be a major priority to U.S. citizens from Maine to Alaska. Cooperation dates back to the 1909 Boundary Waters Treaty, and has grown to include collaboration on transboundary watersheds, flooding, air pollution, water use, and other common concerns. Efficient management of this agenda is complicated because of shared federal, state/provincial and local jurisdiction, and by the fact that it is carried out not only through bilateral agreements but by unique institutions such as the International Joint Commission (IJC) and the still-evolving NAFTA Commission on Environmental Cooperation. Several other provisions of the NAFTA also touch upon environmental regulation, including Chapter 7 on agriculture and sanitary and phytosanitary measures, and Chapter 11, which covers investment. Several arbitrations have been opened under provisions of Chapter 11, some of which concern NAFTA-party environmental regulation over investors from other NAFTA parties.

Section 301 Investigation of Canadian Wheat Board: The United States Trade Representative has initiated an investigation of certain trade practices of the Canadian Wheat Board (CWB) under section 301 of the Trade Act of 1974. This decision is in response to a petition filed by the North Dakota Wheat Commission alleging that the CWB engages in unreasonable trade practices that have resulted in economic harm to U.S. wheat growers. The allegations raise questions about how the CWB markets wheat in the United States and third country markets.

6. Export Subsidies Policies

The Canadian Egg Marketing Agency (CEMA) maintains an export subsidy for processed egg products. Under that regime, the domestic Canadian price for shell eggs is maintained at a level substantially above the world price. At the same time, producers are assessed a levy on all eggs sold and a portion of the levy is used to subsidize exports of eggs. This practice artificially increases Canadian exports of egg products. Provincial governments in Canada are believed to provide a variety of aids that support production and exports. Canada does not report many of these mechanisms in its WTO notifications. For instance, producers and processors may benefit from credit assistance programs and preferential energy supply arrangements.

With regard to Canada's policies on milk, the United States maintains that in light of the fact that there are now separate provincial export programs, Canada continues to provide export subsidies on dairy products due to ongoing price differentials between domestic and export milk prices. The United States will continue to press Canada to adhere to its export subsidy reductions as outlined in the WTO Agreement on Agriculture.

7. Protection of U.S. Intellectual Property

Canada belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). Canada is a signatory to the Paris Convention, Bern Convention, Rome Convention, Patent Cooperation Treaty, Strasbourg Agreement, Budapest Treaty, and the Universal Copyright Treaty. On December 18, 1997 the Canadian government committed itself to sign the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, which deal with copyright and protection for performers and phonogram producers.

The most recent amendments to the Canadian Copyright Act were in 1997 and included, *inter alia*, "neighboring rights," which require broadcasters to pay royalties to recording artists and record producers from countries that are signatories of the Rome Convention (the United States is not). The 1997 legislation also establishes a levy on recordable, blank audio media, payable by manufacturers and importers of blank tapes to domestic artists and artists from countries with the same levy in place. In 1998 and again in 1999 the U.S. Trade Representative maintained Canada on its "Special 301" Watch List because USTR perceived Canada's procedures regarding reciprocal application of these two provisions as a violation of Canada's national treatment obligations under NAFTA. The Canadian government has broad authority to grant the benefits of the regime to other countries, although it has yet to announce a determination regarding the United States or to fully implement them.

In the late 1980s and early 1990s, Canada passed legislation to bring its patent drug regime into GATT compliance. Changes included 20-year patent protection in exchange for research and development (R&D) investment by major multinational pharmaceutical firms that equal 10 percent of the company's annual sales. The R&D investment is monitored by the Patented Medicine Prices Review Board (PMPRB). "Linkage" regulations were created in 1993 in an attempt to balance the Act and allow generic competitors to complete Health Canada regulatory requirements, as well as manufacture and stockpile patented products, before patent expiry ("early working"). The linkage regulations were also created to prevent generic companies from receiving regulatory approval from Health Canada until they demonstrate that their copy does not infringe upon existing patent rights. The linkage regulations allow a 24-month timeframe to determine patent infringement, during which period generic manufacturers are effectively prevented from "working" their product. Early in 2000 the WTO, in response to an EU challenge, ruled that manufacturers of generic drugs in Canada can "early work" their products but they are not allowed to stockpile them. In addition, in response to a U.S. challenge, the WTO ruled that Canada has to comply with its WTO TRIPS obligations and extend full 20-year patent protection on pharmaceutical patents filed before October 1, 1989. Canada appealed the ruling and lost. The Unites States expects Canada to announce by November 17, 2000 that it plans for timely compliance.

8. Worker Rights

Except for members of the armed forces, workers in both the public and private sectors have the right to associate freely. These rights, protected by both the federal labor code and provincial labor legislation, are freely exercised; workers in both the public and private sectors exercise their rights to organize and bargain collectively, although some essential public sector employees have limited collective bargaining rights that vary from province to province. Union membership in mid-2000 was 3.7 million people, representing 30.4 percent of Canada's workforce. There is no forced or compulsory labor practiced in Canada.

Generally, workers must be 17 years of age to work in an industry under federal jurisdiction, (e.g. railways, airlines and shipping). Provincial standards (covering more than 90 percent of the national workforce) vary, however, but generally require parental consent for workers under 16 and prohibit young workers in dangerous or nighttime work. In all jurisdictions, a person cannot be employed in a designated trade (become an apprentice) before the age of 16. The statutory school-leaving age in all provinces is 16. Federal and provincial labor codes establish labor standards governing maximum hours, minimum wages and safety standards and those standards are respected in practice. Labor laws, rights and regulations of a particular jurisdiction apply universally to all employees and employers operating in that jurisdiction, no distinction is made between domestic Canadian and foreign-based employers and investors.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount
Petroleum	16,416

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999—Continued

[Millions of U.S. Dollars]

Category	Amount	
Total Manufacturing		44,023
Food and Kindred Products	4,983	
Chemicals and Allied Products	7,637	
Primary and Fabricated Metals	3,123	
Industrial Machinery and Equipment	3,269	
Electric and Electronic Equipment	2,455	
Transportation Equipment	9,965	
Other Manufacturing	12,592	
Wholesale Trade		8,982
Banking		1,977
Finance/Insurance/Real Estate		25,084
Services		6,438
Other Industries		8,785
TOTAL ALL INDUSTRIES		111,707

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

CHILE

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 (proj)
Income, Production and Employment:			
Nominal GDP[1]	73.1	67.7	71.7
Real GDP Growth (pct)[1]	3.9	–1.1	5.6
GDP Growth by Sector (pct)[1]			
Fishing	2.4	1.7	5.0
Agriculture	6.5	–1.3	3.0
Mining	7.4	16.2	4.5
Manufacturing	–1.5	–0.7	7.5
Construction	0.7	1.7	10.0
Services	5.8	–1.2	6.0
Government	1.4	1.4	1.4
Per Capita GDP (US$)[1]	4,900	4,485	4,717
Labor Force (000s)[1]	5,851	5,934	6,000
Unemployment Rate (pct)[1]	6.2	9.0	8.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)[1]	19.1	9.1	7.2
Consumer Price Inflation (pct)[1]	4.7	2.3	4.6
Exchange Rate (Peso/US$, annual average)[1]	460	509	540
Balance of Payments and Trade:			
Total Exports FOB[1]	14.9	15.6	18.3
Exports to United States[2]	2.5	3.0	3.2
Total Imports CIF[1]	17.4	14.0	16.9
Imports from United States[2]	4.0	3.0	3.3
Trade Balance[1]	–2.5	1.6	1.4
Balance with United States[2]	–1.5	0.0	0.1
Total External Debt[1]	31.7	34.0	36.0
Private Debt	26.0	28.3	30.4
Public Debt	5.7	5.8	5.6
Fiscal Deficit/GDP (pct)[1]	0.0	1.5	0.5
Current Account Deficit/GDP (pct)[1]	5.7	0.1	2.0
Debt Service Payments/Exports (pct)[1]	21.2	27.7	25.4
Gold and Foreign Exchange Reserves (US$ billions)[1]	15.9	14.7	14.4
Aid from United States (US$ millions)	0.3	0.3	0.3

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 (proj)
Aid from All Other Sources	N/A	N/A	N/A

[1] Central Bank of Chile.
[2] U.S. Department of Commerce, International Trade Administration Statistics.

1. General Policy Framework

Chile's economy is recovering strongly from the recession it suffered in 1998 and 1999. Growth of 5.6 percent is projected for 2000. Exports are leading this growth while consumer demand has lagged expectations. The official projection of year-end unemployment is 8.3 percent versus 9 percent at year-end 1999. Exports of primary products have strengthened substantially. Rising copper prices have driven a 4-percent increase in the volume of copper exports to a 30-percent rise in their value (copper represents 40 percent of Chile's foreign exchange earnings) and an 18-percent rise in the value of total exports over 1999 figures. Chile's credit rating remains investment grade, and direct foreign investment remains solid and in line with long-term trends (although it is likely to reach only about half of 1999's record levels, which had doubled prior year figures due to large scale mergers and acquisitions). Growth is projected at approximately six percent in 2001 as domestic demand increases and vibrant exports continue. Chile is an active participant in negotiations for the Free Trade Area of the Americas (FTAA), and recently announced the start of bilateral negotiations of a free trade agreement with the United States.

The new government of Ricardo Lagos (March 2000–2006) has continued Chile's policies of macroeconomic stability and export orientation. The calendar year 1999 budget registered Chile's first deficit in 10 years, but the Finance Ministry insisted upon and won passage of a 2000 budget that features 3.3 percent nominal growth, austere when considered in the context of 4.6 percent projected inflation. While the Chilean government has expressed concern over too-rapid, uncontrolled capital inflows prior to the 1998–99 economic crisis, it has continued to loosen capital restrictions. Following legislative changes in 1997, foreign banks have invested heavily in the Chilean market (particularly in 1999). Foreign insurance and finance companies are also dominant in the health and pension industries, owning most of the market leaders. The Government of Chile has privatized some ports through concessionary contracts.

In September 1999 Chile's independent Central Bank dropped the exchange-rate band system that governed its exchange rate policy. This is a major change from previous policy, which sought to keep the peso/dollar rate within pre-set parameters. The Central Bank maintains its policy of balancing growth and inflation via short-term interest rate policy and intervention in the currency markets, but has pledged to use those tools sparingly.

The 1998–1999 contraction is showing definite signs of abating, but has left unemployment in the double-digits for much of 2000, nearly twice the average level seen in the 1990s. Domestic demand is still depressed, despite recovering much of the ground lost in the recession. Chilean exports have grown 18 percent in the first nine months of 2000 and are expected to remain strong. Commodity prices are expected to continue to rise internationally, boosting the already strong performance of the copper and mining sector. Unemployment should gradually continue to fall from its peak of 11.5 percent in October 1999 to the 8.5 percent range by late-2000. Chile's current trade surplus should continue in the mid-term based on strong export growth and despite domestic demand recovery. The small current account surplus will, in all likelihood, disappear, and Chile will revert to its traditional deficit; policymakers are committed to seeing it remain at a much lower level than seen prior to the recession.

2. Exchange Rate Policies

The Central Bank moved to a freely floating exchange-rate system from an exchange-rate band in September 1999. The Central Bank's short-term interest rate is currently five percent, and the Central Bank is committed to holding it there at least until economic recovery takes hold. Over the last several years, the Central Bank has gradually reduced restrictions on foreign-exchange outflows other than reporting requirements. A legal parallel market operates with rates almost identical to the inter-bank rate.

3. Structural Policies

Pricing policies: The government rarely sets specific prices. Exceptions are urban public transport and some public utilities and port charges. State enterprises generally purchase at the lowest possible price, regardless of the source of the material. U.S. exports enter Chile and compete freely with other imports and Chilean products. Chile's trade agreements with Mexico, Canada, Mercosur and Central America give exporters from those countries significant competitive advantages; virtually all Mexican and Canadian exports enter the Chilean market duty free. Import decisions are typically related to price competitiveness and product availability. (Certain agricultural products are an exception; see Section 5 below).

Tax policies: Forty percent of total tax revenues are generated by an 18-percent value-added tax (VAT), which applies to all sales transactions. There is a 9 percent tariff on virtually all imports originating in countries with which Chile does not have a free trade agreement, down from 11 percent in 1998. Tariffs are programmed to drop to eight percent in 2001, and to fall by one percentage point per year to reach six percent in 2003. Computers enter Chile duty-free as a result of the Information Technology Agreement. Personal income taxes are levied only on income over about $6,000 per year. The top marginal rate is 45 percent on annual income over about $75,000. Profits are taxed at flat rates of 15 percent for retained earnings and 35 percent for distributed profits, with incentives for business donations to educational institutions. Tax evasion is not a serious problem.

Regulatory policies: Regulation of the Chilean economy is limited. The most heavily regulated areas are utilities, the banking sector, securities markets, and pension funds. No government regulations explicitly limit the market for U.S. exports to Chile (although other government programs, like the price-band system for some agricultural commodities described below, displace U.S. exports). In recent years, the government has introduced rules permitting private investment in the construction and operation of public infrastructure projects such as toll roads. The "privatization" of Chilean state-owned ports, which consists of granting long-term concessions for the operation and management of ports, is proceeding as projected, with three of the five major ports already privatized. Bid documents have been released for the privatization of water and waste-treatment facilities.

4. Debt Management Policies

Due to Chile's vigorous economic growth, fiscal responsibility and careful debt management over the last decade, the magnitude of foreign debt no longer constitutes a major structural problem. As of October 2000, Chile's public and private foreign debt was $35.7 billion, or 49 percent of GDP (in 1985, the debt-to-GDP ratio was 125 percent). Public-sector debt has remained low the past five years, fluctuating between $5 and $6 billion and representing 7.7 percent of GDP in 2000. In 1995 the government and the Central Bank prepaid over $1.5 billion in debt to the International Monetary Fund (IMF).

5. Significant Barriers to U.S. Exports

Chile has a relatively open economy and is a member of the WTO. However, many agricultural commodities are subject to strict phytosanitary requirements and restrictions. Beginning in January 2001, the uniform Chilean tariff rate will decline to eight percent and will be reduced by one percentage point per year to reach a rate of six percent in 2003. The uniform rate (9 percent in 2000) applies to all goods except for used goods, which are subject to a 16.5 percent tariff. Chile has free-trade agreements that will lead to duty-free trade in most products by the early 2000s with Canada, Mexico, Venezuela, Colombia, Ecuador, Peru, Bolivia, the Mercosur bloc, and the Central American nations of El Salvador, Nicaragua, Honduras, Guatemala and Belize. Chile is also an active participant in negotiations for the Free Trade Area of the Americas (FTAA). Tariffs also are lower than nine percent for certain products from member countries of the Latin American Integration Association (ALADI). In December 2000, Chile and the United States announced the beginning of negotiations for a bilateral U.S.-Chile Free Trade Agreement.

The 18 percent VAT is applied to the CIF value of imported products plus the 9 percent import duty. Duties may be deferred for seven years for capital goods imports purchased as inputs for products to be exported. Duties may be waived on capital goods to be used solely for production of exports (see Section 6 below). There is an additional luxury tax of 85 percent on the CIF value of automobiles in excess of $15,000. This tax discourages sales of larger and more expensive vehicles, including many U.S.-made automobiles. Despite these taxes, sales of U.S.-brand vehicles are rising.

Another tax with the effect of discouraging U.S. exports is a prejudicial excise tax on distilled liquors that compete with domestically produced liquors. In late 1997 the legislature passed a law to gradually modify, but not eliminate, the discriminatory taxation faced by imported liquors. The European Union won a WTO panel appeal over Chile's discriminatory liquor taxation, and the Government of Chile must bring its law regarding taxation of distilled spirits into compliance with WTO disciplines by March 2001. The United States was a third party observer to the panels.

Import licenses: According to legislation governing the Central Bank since 1990, no legal restrictions are imposed on licensing. Import licenses are granted as a routine procedure for most products. Imports of used automobiles and most used car parts are prohibited.

Investment barriers: Chile's foreign investment statute, Decree Law (DL) 600, sets the standard of treatment of foreign investors to be the same as that of Chilean investors. DL 600 investment is generally direct investment. Foreign investors using DL 600 sign a contract with the government's Foreign Investment Committee guaranteeing the terms and tax treatment of their investments. These terms include the rights to repatriate profits immediately and capital after one year, to exchange currency at the official inter-bank exchange rate, and to choose between either national tax treatment at 35 percent or a guaranteed rate for the first ten years of an investment at 42 percent. Approval by the Foreign Investment Committee is generally routine, but the committee has rejected some "speculative" investments. In late 1997 the government modified its DL 600 policy to restrict investment entering under the law's provisions to projects worth more than $1 million. In addition, projects of more than $15 million are now routinely vetted with the Central Bank to identify possible "speculative" flows. Associated external loan financing in excess of the value of direct foreign investment flows cannot enter under the provisions of DL 600 (i.e., to enter free of deposit provisions, foreign loan leveraging cannot exceed a ratio of 1:1).

Investment not entering Chile through DL 600 can enter under Chapter 14 of the Central Bank Regulations. Under Chapter 14, investors can be required to deposit a certain percentage of the value of capital inflows in a non-interest-bearing Central Bank account (known as the "encaje") for as long as two years; through mid-1998 the required deposit was 30 percent for one year. Responding to increasing risk premiums charged by creditors and a substantial decline in foreign financial capital flows as a result of the global financial crisis, the Central Bank reduced the requirement to zero in August 1998, but did not abolish the policy. The purpose of the policy had been to limit speculative flows and thus to help stabilize the value of the Chilean peso. In May 2000 the Central Bank eliminated the one-year residency requirement on capital entered under Chapter 14, which consists essentially of portfolio investment.

Firms may invest without using DL 600 or registering with the foreign investment committee by bringing capital in through foreign exchange dealers or private banks under Chapter 14. Few firms have used this means of investment, as it subjects funds to the encaje and lacks the guarantees provided by the contract with the foreign investment committee.

There is no tax treaty between Chile and the United States (although negotiations are underway), so profits of U.S. companies operating in Chile are liable to taxation by both governments. However, U.S. firms generally can claim credits on their U.S. taxes for taxes paid in Chile.

There are some deviations, both positive and negative, from the nondiscrimination standard. Foreign investors receive better than national treatment on taxation, as they have the option of fixing the tax rate they will pay at 42 percent for ten years or paying the prevailing domestic rate, which is at present lower. There are also examples of less than national treatment.

D.L. 600 allows the Central Bank to restrict the access of foreign investors to domestic borrowing in an emergency in order to prevent distortion of local financial markets. The Central Bank has never exercised this power.

Other examples of less than national treatment are certain sectoral restrictions on foreign investment. With few exceptions, fishing in the country's 200-mile Exclusive Economic Zone is reserved for Chilean-flag vessels with majority Chilean ownership. Such vessels also are the only ones allowed to transport by river or sea between two points in Chile ("cabotage") cargo shipments of less than 900 tons or passengers. The automobile and light truck industry is the subject of trade-related investment measures.

Oil and gas deposits are reserved for the state. Private investors are allowed concessions, however, and foreign and domestic nationals are accorded equal treatment.

Services barriers: Full foreign ownership of radio and television stations is allowed, but the principal officers of the firm must be Chilean.

Principal non-tariff barriers: The main trade remedies used by the Chilean government are surcharges, minimum customs values, countervailing duties, antidumping duties, and import price bands and safeguards. A significant nontariff barrier is the import price-band system for wheat, wheat flour, vegetable oils, and sugar. When import prices are below a set threshold, surtaxes are levied on top of the across-the-board nine percent tariff to bring import prices up to an average of international prices over previous years. Domestic flour millers and beverage manufacturers continue to complain bitterly about the high duties on wheat and sugar. Imports of U.S. wheat are expected to be down in 2000.

Sanitary and phytosanitary requirements: Chile has improved its recognition of pest-free areas in the United States, but delays on export approval for many U.S. fruits and vegetables continue to hamper increased sales to Chile. On a positive note, Chile recently granted market access for California avocados and walnuts. Chile has begun to publish its regulations and, in some cases, allows a public comment period on proposed rules. Most import permits are issued on a case-by-case basis, thereby lending to uncertainty and possible discriminatory treatment. Procedures and tolerances for testing imported chicken for the presence of salmonella present such a severe commercial risk that local importers are reluctant to import such products. Chile's unique beef grading and labeling requirements effectively preclude imports of U.S. beef. Chile's livestock products law requires first-hand Chilean inspection of every U.S. establishment wishing to export to Chile. Products affected include red meat, dairy and pet food. Chile's recent rule on imported salmonid eggs requires a 60-day pre-notification period followed by a 120-day quarantine, severely deterring imports from the United States.

Government procurement practices: The government buys locally produced goods only when the conditions of sale (price, delivery times, etc.) are equal to or better than those for equivalent imports. In practice, given that many categories of products are not manufactured in Chile, purchasing decisions by most state-owned companies are made among competing imports. Requests for public and private bids are published on the Internet.

6. Export Subsidies Policies

Chile offers a few non-market incentives to exporters. For example, paperwork requirements are simplified for nontraditional exporters. The government also provides exporters with quicker returns of VAT paid on inputs than other producers receive.

The most widely used indirect subsidy for exports is the simplified duty drawback system for nontraditional exports. This system refunds to exporters of certain products a percentage of the value of their exports, rather than refunding the actual duty paid on imported inputs to production (as is the case in Chile's standard drawback program). All Chilean exporters may also defer tariff payments on capital imports for a period of seven years. If the capital goods are used to produce exported products, deferred duties can be reduced by the ratio of export sales to total sales. If all production is exported, the exporter pays no tariff on capital imports.

In 1998 the Chilean Congress replaced earlier forestry-sector subsidy legislation with a new law that will be directed mainly toward assisting small farmers. Planting costs will be subsidized by as much as 90 percent for the first 15 hectares and 75 percent for the remainder in the case of small farmers. A maximum of $15 million yearly will be destined for this purpose. Special land-tax exemptions will also be part of the program. Under the previous law, the combined subsidy costs incurred during 1997 totaled $7.7 million, down from $15.3 million in 1996.

7. Protection of U.S. Intellectual Property

Chile's intellectual property regime is basically strong. However, deficiencies in the intellectual property regime have kept Chile on the USTR Special 301 watch list since 1989. Chile belongs to the World Intellectual Property Organization. Legislation intended to bring Chile into compliance with its WTO TRIPS commitments is pending in the Chilean Congress.

Copyrights: Piracy of video and audio tapes has been subject to criminal penalties since 1985. Chilean authorities have taken enforcement measures against video, video game, audio, and computer software pirates in recent years, and piracy has declined in each of these areas. In the mid-1980s the software piracy rate was believed to be around 90 percent; it is currently estimated at roughly 50 percent, believed to be the lowest rate in Latin America. The decline is in part the result of a campaign by the United States and international industry, with the cooperation of Chile's courts and government, to suppress the use of pirated software. Industry sources say that penalties remain low relative to the potential earnings from piracy and that stiffer penalties would help to deter potential pirates. Copyright protection is generally the life of the author plus 50 years.

Trademarks: Chilean law provides for the protection of registered trademarks and prioritizes trademark rights according to filing date. Local use of a trademark is not required for registration. As with the licensing of other intellectual property privileges, contracting parties may freely set payment rates for use of trademarks

8. Worker Rights

a. *The Right of Association:* Most workers have a right to join unions or to form unions without prior authorization, and around 12 percent of the work force belongs to unions. Government employee associations benefited from legislation in 1995 that gave them many of the same rights as unions, although they may not legally strike. Reforms to the labor code in 1990 removed significant restrictions on the right to strike. Those reforms require that a labor inspector or notary be present when union members vote for a strike.

b. *The Right to Organize and Bargain Collectively:* During the last decade, the climate for collective bargaining has improved, though unions still face difficulties. Sector-wide collective bargaining is not allowed. The process for negotiating a formal labor contract is heavily regulated, a vestige of the statist labor policies of the 1960s. However, the law permits informal union-management discussions to reach collective agreements outside the regulated bargaining process. These agreements have the same force as formal contracts.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited in the constitution and the labor code and is not practiced.

d. *Minimum Age for Employment of Children:* Child labor is regulated by law. Children 15 to 18 may be legally employed with permission of parents or guardians and in restricted types of labor. Some children are employed in the informal economy, which is more difficult to regulate. The Chilean government estimates that roughly 50,000 children between the ages of 6 and 14 work. The majority of these were males from single-parent households headed by women.

e. *Acceptable Conditions of Work:* Minimum wages, hours of work, and occupational safety and health standards are regulated by law. The legal workweek is 48 hours. The minimum wage, currently around $175 per month, is set by government, management, and union representatives or by the government if the three groups cannot reach agreement. Lower-paid workers also receive a family subsidy. The minimum wage and wages as a whole have risen steadily over the last ten years (except for 1999). Poverty rates have declined dramatically from 46 percent of the population in 1987 to 21.7 percent in 1998. In a 1999 government survey of 1,247 companies and 79,532 workers, 45.3 percent of the workers earned less than two minimum wages. Only one third of the workers stated they had received wage increases in 1999 versus 47 percent in 1998.

f. *Rights in Sectors with U.S. Investment:* Labor rights in sectors with U.S. investment are the same as those specified above. U.S. companies are involved in virtually every sector of the Chilean economy and are subject to the same laws that apply to their counterparts from Chile and other countries. There are no special districts where different labor laws apply.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		33
Total Manufacturing		1,323
Food and Kindred Products	192	
Chemicals and Allied Products	231	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	20	
Electric and Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	195	
Wholesale Trade		365
Banking		656
Finance/Insurance/Real Estate		3,404
Services		211
Other Industries		3,893
TOTAL ALL INDUSTRIES		9,886

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

COLOMBIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment: [2] [3]			
Nominal GDP	89.7	85.3	87.9
Real GDP Growth (pct)	0.6	–4.8	3.0
GDP by Sector:			
Agriculture	17.4	12.5	12.9
Manufacturing	17.5	11.1	11.9
Services (includes financial)	29.5	34.2	34.8
Commerce	11.2	9.7	10.2
Government [4]	27.5	25.7	25.4
Per Capita GDP (US$)	2,243	2,097	2,118
Labor Force (000s) [5]	17,212	17,521	17,836
Unemployment Rate (pct)	15.9	18.1	20.2
Money and Prices (annual percentage growth): [6]			
Money Supply Growth (M2)	20.5	22.1	30.0
Consumer Price Inflation	16.7	9.2	10.0
Exchange Rate (Peso/US$ annual average)			
Official	1,425.9	1,756.8	2080.0
Balance of Payments and Trade: [7]			
Total Exports FOB	10.8	11.5	13.2
Exports to United States	4.0	5.6	6.2
Total Imports CIF	14.6	10.6	12.2
Imports from United States	4.6	3.8	5.5
Trade Balance	–3.8	0.9	1.0
Balance with United States	–0.6	1.8	0.7
Current Account Deficit/GDP (pct)	–5.9	–2.4	–2.0
External Public Debt	18.4	19.7	20.5
Debt Service Payments/GDP (pct)	3.7	3.2	3.5
Fiscal Deficit/GDP (pct)	–4.5	–5.8	–3.6
Gold and Foreign Exchange Reserves	8.7	8.1	8.5
Development Aid from United States (US$ millions) [8]	11.0	18.8	129.1
Aid from All Other Sources	N/A	N/A	N/A

[1] 2000 figures are estimates based on available monthly data in October.
[2] Percentage changes calculated in local currency.
[3] Sources for all figures in section except government spending are National Department of Statistics (DANE). For government spending: Ministry of Finance.
[4] Approved national budget. Source: Ministry of Finance.
[5] Economically active population for the whole country.
[6] Source: Banco de la Republica (BDR).
[7] Source: Ministry of Foreign Trade.
[8] Aid reflects USAID program only.

1. General Policy Framework

Until recently, the Colombian economy had performed well in the last two decades, showing average annual growth rates of 4.5 percent. Transition from a highly regulated economic regime led to economic liberalization, initiated by the administration of President Cesar Gaviria (1990–94). Liberalization consisted of tariff reductions, financial deregulation, privatization of state-owned enterprises, and adoption of a more liberal foreign exchange regime. Almost all sectors became open to foreign investment although agricultural products remained protected. A price-band system to determine tariffs for agricultural products excluded them from the liberalization process. Import license requirements were eliminated for most products though some agricultural products still require licenses.

By the mid-1990s, fiscal and current account deficits started to increase. The Samper administration (1994–98) increased government spending and the fiscal deficit and public sector debt. The financing of larger deficits had contractionary effects on the private sector by pushing interest rates higher. Economic growth slowed beginning in 1996, until the first recession since 1931 began in late 1998. Colombia grew at 0.6 percent in 1998 and faced negative growth of 4.8 percent in 1999. Such a steep fall in GDP growth was caused by a contraction of aggregate demand (consumption and investment decreased to unprecedented levels in recent history) due to a generalized and significant fall in prices and a crisis in the financial system. The construction industry, one of the largest employment sectors in Colombia, was particularly hard-hit by tight credit conditions. Unemployment increased dramatically reaching over 18 percent by year-end in 1999, and stood at 20.1 percent as of September 2000. The manufacturing and trade sectors were also greatly affected by what has been called the "worst recession in the last century."

The Pastrana administration (1998–2002) has implemented a series of measures aimed at promoting trade and investment, reducing the fiscal deficit, and achieving peace with the guerrilla insurgency. In September 1999 Colombia reached an agreement with the International Monetary Fund for a $2.7 billion Extended Funds Facility. The IMF accord entailed commitments to achieve specific macro-economic targets and to seek structural reform legislation. The fiscal deficit is scheduled to decline to 3.6 percent of GDP in 2000 under the IMF program, and to 2.5 percent in 2001. As of July 2000, the fiscal deficit had already reached 3.6 percent of GDP.

The fall in economic growth was less dramatic in the second half of 1999, due to measures taken by the Colombian government to lower inflation and interest rates, and increase the real exchange rate. Economic indicators as of October 2000 are beginning to show generally positive trends; the business climate shows signs of modest improvement. The National Planning Department (DNP) has estimated growth for 2000 at between two and three percent as a modest recovery takes hold. The Colombian Government is now predicting GDP growth of 4.1 percent for 2001.

Colombia has major commercial and investment links to the United States. The United States received 48.5 percent of Colombia's exports and provided 35.9 percent of Colombia's imports in 1999. More than 70 percent of Colombian exports to the United States are primary products such as food (mainly coffee, bananas, flowers, tuna, shrimp, and sugar), and fuel (petroleum and coal). Other important export products are textiles and apparel. The United States also holds the largest country share of foreign direct investment: $5.1 billion, or 26.5 percent of the estimated total direct foreign investment of $19.4 billion.

Between 1990 and 1999 the government privatized a number of state-owned banks, ports, railroads, and mining companies. It also sold concessions to private providers of telecommunications and broadcasting services that began using the government-owned spectra. The 50 percent government-owned share of the Carbocol coal mining company was privatized on October 3, 2000. Carbocol was sold to a consortium of multinational companies (Billington, Glencor, and Anglo-American) for $474 million. The Pastrana administration also has plans to privatize the remaining profitable public enterprises, including the Bogota Telephone Company (ETB), the electricity transmission company, ISA and the electricity generating company, ISAGEN, plus 14 electric distributors. However, the process was recently postponed after the Constitutional Court suspended the privatization of ISAGEN, and after all possible bidders at the auction of ETB abstained from participating. Passage of contemplated economic reforms and privatization in the energy and telecommunications sectors is important if growth is to be sustained.

Rising fiscal deficits forced the authorities to adopt several tax reforms over the last years. Law 488, approved in December 1998, lowered the value-added tax (VAT) from 16 to 15 percent, while widening coverage. Aed ssdrovideiolrom8, le farovconteifn by trovirbo4 elzatihe prociesd in December 1), the
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in the market by buying or selling dollars to keep the dollar's price in pesos within the band, which it was forced to adjust twice in the previous year (September 1998 and June 1999) in response to exchange market pressure. The exchange rate stabilized soon after abolition of the band, subsequently responding to economic and political developments. As of October 2000, the peso had depreciated 20 percent from the beginning of the year. The peso's depreciation has reduced the price competitiveness of U.S. exports to Colombia, while boosting the competitiveness of Colombian exports to the United States. Currency depreciation together with import compression due to recession produced a dramatic turnaround in Colombia's overall trade balance, as well as its bilateral balance with the United States. Between 1998 and 1999 Colombia's overall trade balance swung from a $3.8 billion deficit to a $910 million surplus, while the U.S.-Colombia trade balance swung from a $627 million U.S. surplus to a $1.7 billion deficit. As of July 2000, the U.S.-Colombia trade balance had registered a $1 billion deficit.

3. Structural Policies

As a member of the Andean Community, Colombia has had a Common External Tariff (CET) in effect since 1995. The CET has different duty levels that vary from zero to 20 percent for most non-agricultural products. A special Andean price-band system (based on domestic and international prices) is applied to calculate variable tariffs of agricultural imports. Tariff rates for agricultural products subject to the price-band system vary between 27 and 107 percent. Thirteen basic agricultural commodities including wheat, sorghum, corn, rice, barley, milk, and chicken parts, and an additional 150 commodities considered substitute or related products are subject to tariffs calculated under the price-band system. The government also regulates prices of electricity, water, sewage, and telephone services, public transportation, rents, education tuition, and pharmaceuticals. Colombia's special import-export system for machinery and its free trade zones constitute export subsidies. Colombia's tax rebate certificate program (CERT) also contains a subsidy component which the Colombian government has stated it will replace with an equitable drawback system, although it has not yet done so.

Colombia has implemented six tax reforms over the last 10 years. In December 1998 the Colombian Congress passed Law 488, which lowered the value-added tax (VAT) from 16 to 15 percent effective November 1, 1999, and increased the number of goods and services subject to the VAT. Law 488 established a common tax regime for small taxpayers and increased the stamp tax paid on all written contracts from one to one-and-a-half percent. In November 1998 the government decreed an economic emergency in the country to address a crisis in the financial system. One of the measures decreed was a 0.2 percent emergency tax on financial transactions, known as the "two per thousand," which was to be used to capitalize public banks and financial cooperatives, which were the most affected by the crisis. The "two per thousand" tax was initially to remain in effect until December 31, 1999. However, in January 1999 an earthquake in Colombia's coffee region frustrated the government's hope of meeting its lower spending targets and the tax was extended until 2001. In August 2000 a new tax reform bill was presented to Congress. This new reform seeks additional resources of approximately $1.7 billion by making permanent the "two per thousand" tax, increasing further the number of goods and services subject to the VAT, and eliminating current tax exemptions mainly provided to regions which have been affected by natural disasters (Cauca, Risaralda and Quindio departments). Congress has not yet approved this bill.

Colombia also assesses a discriminatory VAT of 35 percent on whiskey aged for less than 12 years, which is more characteristic of U.S. whiskey, versus a rate of 20 percent for whiskey aged for 12 or more years, most of which comes from Europe. This tax regime on distilled spirits appears to violate Colombia's WTO obligation to provide Most Favored Nation (MFN) treatment equally to all WTO members.

All foreign investment in petroleum exploration and development in Colombia must be carried out under an association contract between the investor and the state petroleum company, "Ecopetrol." The terms of the standard association contract were modified in 1994, 1995, 1997, 1998, and again in 1999. The Pastrana administration has acknowledged Colombia's need for new oil reserve discoveries and implemented a new hydrocarbon policy designed to attract foreign investment. The new policy, which went into effect in the first quarter of 2000, represents one of the most comprehensive reforms of the last 30 years, and has the long-term goal of producing 1.5 million barrels per day by the year 2010. These changes will hopefully enhance the attractiveness of Colombia's oil investment climate. There has already been an increase in the number of exploration contracts signed.

Colombia adopted a harmonized automotive policy with Venezuela and Ecuador, which went into effect in January 1994. Automotive parts and accessories, and motor vehicles imported from any of the three signatory countries have a zero import duty, while those imported from third countries are covered with CET rates varying between 3 and 35 percent depending on the type of vehicle and automotive part. A new Andean auto regime was adopted in November 1999, in which common external tariff rates remained unchanged, but regional content requirements were gradually increased from the current average of 23 percent to a maximum of 34 percent by the year 2009.

The Pastrana administration has taken concrete steps to promote trade and investment. An agreement with the U.S. government establishing periodic Trade and Investment Council meetings with the Andean Community was signed in October 1998. Efforts have also been made to improve oversight of the television sector and reduce cable and satellite signal piracy. A Presidential Directive was issued in early 1999, requiring all Colombian public entities to respect international copyrights. The Pastrana administration amended an article in the 1991 Constitution, repealing the previously allowed expropriation of foreign investment without compensation.

4. Debt Management Policies

Colombia's foreign debt has increased significantly over the last years. Total foreign debt went from representing 27.4 percent of the GDP in 1994 to 40.6 percent of the GDP in 1999; of this, public sector debt grew more modestly, from 17 to 23.8 percent of GDP across the same span. In 1999 international financial institutions supported the Colombian government's fiscal adjustment and development programs through 2002: a $2.7 billion guarantee (Extended Funds Facility) from the International Monetary Fund, and loans at concessionary rates in the amount of $1.7 billion from the Inter-American Development Bank, $1.4 billion from the World Bank, $600 million from the Andean Development Corporation, and $500 million from the Latin American Reserve Fund. As of September 2000, Colombia's total (public and private) foreign debt amounted to $33.6 billion.

Colombia's history of continuous timely servicing of its international debt obligations and, at least until recently, modest external debt burden earned the country one of the few "investment" grade credit ratings from the major rating companies. However, in 1999 Standard & Poors, Moody's, and Duff & Phelps downgraded Colombia's debt, citing Colombia's faltering peace process, increased security concerns, and insufficient progress in fiscal consolidation. The rating downgrades had little impact on the secondary market prices of Colombian debt, as the move had largely been priced into the market already. Colombian debt had traded at significantly wider spreads than would be indicated by its "investment grade" rating for some time.

In September 1998 the Central Bank reduced its deposit requirement imposed on foreign borrowing from 25 to 10 percent (the term of the deposit was also reduced from 12 to 6 months). In January 1999 the Central Bank completely removed the deposit requirement for import-related borrowing while maintaining a 10 percent deposit requirement on export-related foreign borrowing operations. In April 2000 the Central Bank completely removed the deposit requirement on all foreign borrowing operations.

5. Aid

The Narcotics Affairs Section (NAS) in Bogota coordinates U.S. aid and assistance to the Colombian National Police and other counternarcotics programs. Total narcotics-related aid amounted to approximately $315 million in 1999, making this country the largest recipient of U.S. counternarcotics aid in the world. In the second half of 2000, the U.S. Congress approved an additional provision of $1.3 billion through the year 2002, for Colombian Government's "Plan Colombia" to eradicate illicit crops, provide alternative development opportunities, strengthen human rights, and increase the state presence in coca-growing areas. The Colombian government is seeking additional assistance from Europe and Japan for "Plan Colombia".

The U.S. Agency for International Development (USAID) office in Bogota coordinates the provision of resources for development programs in Colombia. Its Operating Year Budget (OYB) for FY1999 was $18.8 million and OYB for FY2000 is $129.5 million. These funds will be used to support activities in democracy, alternative development and support to internally displaced persons.

6. Significant Barriers to U.S. Exports

Import Licenses: Colombia requires import licenses for less than two percent of all products, which include various commodities, narcotics-precursor chemicals, armaments and munitions, donations, and some imports by government entities. Though the government abolished most import licensing requirements in 1991, it has continued to use prior import licensing to restrict importation of certain agricultural products such as chicken parts and other preserved chicken and turkey products. In addition, since the promulgation of Decree 2439 in November 1994, Ministry of Agriculture approval has been required for import licenses for products which, if imported, would compete with domestic products. Some of these products, which include important U.S. exports to Colombia, are wheat, malt barley, corn, rice, sorghum, and wheat flour. Prior to its termination in the first quarter of 2000, the Colombian Institute of Foreign Trade (INCOMEX) excluded powdered milk from the licensing regime, which had previously restricted milk imports during Colombia's high milk production season. The majority of used goods—cars, manufactured auto parts, tires and clothing—are prohibited from import, and those that are allowed, such as machinery, are subject to licensing.

Services Barriers: Colombia maintains barriers in a number of service areas. Colombian television broadcast laws (Law 182/95 and Law 375/96) impose several restrictions on foreign investment. For example, foreign investors must be actively engaged in television operation in their home country. Their investments are limited to 15 percent of the total capital of local television production companies and must involve an implicit transfer of technology. At least 50 percent of programmed advertising broadcast on television must have local content. Foreign talent may be used in locally produced programming, but limits are set by the National Television Commission. The Colombian Congress is seeking a reform to the television broadcast laws, but the reform bill does not eliminate current restrictions to foreign participation. The provision of legal services is limited to law firms licensed under Colombian law. Foreign law firms can operate in Colombia only by forming a joint venture with a Colombian law firm and operating under the licenses of the Colombian lawyers in the firm. Colombia permits 100 percent foreign ownership of insurance firm subsidiaries. It does not, however, allow foreign insurance companies to establish local branch offices. Insurance companies must maintain a commercial presence in order to sell policies other than those for international travel or reinsurance. Colombia denies market access to foreign maritime insurers. A commercial presence is required to provide information-processing services. All tourism service providers must be registered with the Ministry of Economic Development and must be licensed by the Government's National Tourism Corporation. Health service providers must be registered with the various supervisory entities (the Ministry of Health, the National Council of Social Security and Health, and the Superintendency of Health) which impose strict parameters pertaining to cost accounting structures and the quality of the service provided. Foreign educational institutions must have resident status in Colombia in order to receive operational authority from the Ministry of Education.

Investment Barriers: Colombian foreign investment statutes provide for national treatment for foreign investment. One hundred percent foreign ownership is permitted in most sectors of the Colombian economy. Exceptions include activities related to national security and the disposal of hazardous waste. All foreign investors (acting as individuals or investment funds) must receive prior approval from the Banking Superintendency to acquire an equity participation of five percent or more in a Colombian financial entity. As a measure against money laundering, Foreign Direct Investment (FDI) in real estate was prohibited until February 8, 1999, when prohibitions on foreign investment in real estate companies were abolished by Decree 241. Colombian law requires that at least 80 percent of employees of companies in the mining and hydrocarbons sector be Colombian nationals. It also requires that foreign employees in financial institutions be limited to managers, legal representatives and technicians. Colombia limits foreign ownership of telecommunication companies to 70 percent. An economic needs test determines market access and national treatment for cellular, PCS, long distance, and international telecommunications services. The government retains the right to identify other sectors in which to limit or forbid foreign investment.

All foreign investment must be registered with the Central Bank's foreign exchange office within three months in order to insure the right to repatriate profits and remittances. All foreign investors, like domestic investors, must obtain a license from the Superintendent of Companies and register with the local chamber of commerce.

Standards, Testing, Labeling, and Certification: The Colombian Foreign Trade Institute (INCOMEX) requires specific technical standards for a variety of products. The particular specifications are established by the Colombian Institute of Technical Standards (ICONTEC), or under ISO–9000. Certificates of conformity must be obtained from the Superintendency of Industry and Commerce before importing products that are subject to technical standards.

Government Procurement Practices: Law 80 of 1993 is Colombia's government procurement and contracting law. It grants equal treatment to foreign companies on a reciprocal basis and eliminates the 20 percent surcharge previously added to foreign bids. In implementing Law 80, the Colombian government instituted a requirement that companies without local headquarters must certify government procurement reciprocity in the home country. A local agent or legal representative is required for all government contracts. When foreign firms bid under equal conditions, the contract is usually awarded to the one that incorporates a greater number of domestic workers, involves more domestic content, or provides better conditions for transfer of new technology. Some U.S. companies have complained of corruption and lack of transparency in bidding and contracting processes. Colombia is not a party to the WTO agreement on government procurement.

In July 2000 the Colombian government submitted to Congress a bill reforming Law 80. Successful passage of the bill would prohibit donors to political campaigns from participating in contracts or bidding processes offered by their beneficiaries. It would require that privatized companies maintain the same bidding regime (same rules and regulations) as public companies. The bill would also eliminate non-bid contracts and would provide the same treatment to foreign and domestic bidders. This means that foreign bidders in public contracts would receive the same treatment as in their own countries, and contracting parties would not be allowed to demand transfer of goods and services from abroad.

Customs Procedures: In 1996 Colombia incorporated the GATT's customs valuation code into its legislation. Additionally, all importers of goods with a value of $5,000 and above must present the "Andean Customs Valuation Declaration" in which the importer states the real value of the merchandise. In December 1999 the Ministries of Finance and Foreign Trade abolished a pre-shipment certification requirement for exports to Colombia. Thus, the pre-shipment inspection certificate is no longer required to clear goods through Colombian customs. A new Customs Code, Decree 2685, was approved on December 28, 1999 and simplified export procedures. The new code entered into force on July 1, 2000.

7. Export Subsidies Policies

Although Colombia has made commitments to abide by the provisions of the GATT Subsidies Code, by phasing out any export subsidies inconsistent with that code, it still maintains certain export subsidies. Colombia's tax rebate certificate program (CERT) contains a subsidy component, which the Government of Colombia has stated it will replace with an equitable drawback system, although it has not yet done so. The other export subsidy, known as the "Plan Vallejo," allows for duty exemptions on the import of capital goods and raw materials used to manufacture goods that are subsequently exported. Colombia's "special machinery import-export system" also constitutes an export subsidy through the mechanism of tax exemptions on imported machinery. Other than the above, Colombia's subsidy practices are generally compatible with WTO standards.

8. Protection of U.S. Intellectual Property

Colombia does not yet provide adequate and effective intellectual property protection. As a result, Colombia has been on the "Watch List" under the Special 301 provision of the 1988 Trade Act every year since 1991, and an out-of-cycle review in mid-1999 placed Colombia once again in the same "Watch List" category. Colombia has ratified, but not yet fully implemented, the provisions of the World Trade Organization (WTO) agreement on Trade Related Aspects of Intellectual Property (TRIPS). A major intellectual property rights issue has been the Colombian Government's failure to license legitimate pay television operators and to pursue pirate operators. Colombia's Television Broadcast Law increased legal protection for all copyrighted programming by regulating satellite dishes, but enforcement has only recently begun through a licensing process designed to make illegal operators responsible for paying copyright fees. The licensing process, if effective, should reduce the widespread piracy by legitimizing non-royalty paying service providers. As of October 2000, the Colombian National Television Commission (CNTV) had completed licensing for 117 cable television operators on 56 municipalities all over the country. CNTV also made efforts to pursue pirate operators by initiating investigations of 282 suspected pirate operators, eight of which have so far incurred sanctions. Colombia has also created a Special Investigative Unit within the Prosecutor General's Office dedicated to intellectual property rights issues. This unit began functioning in November 1999.

Colombia, which is a WTO member, has ratified its Uruguay Round implementing legislation. It is a member of the World Intellectual Property Organization (WIPO) and has negotiated to join the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty and the Union for the Protection of New Plant Varieties. Colombia belongs to the Bern and Universal Copyright Conventions, the Buenos Aires and Washington Conventions, the Rome Convention on Copyrights, and the Geneva Convention for Phonograms. It is not a member of the Brussels Convention on Satellite Signals.

Patent and Trademarks: Colombia is a member of the Inter-American Convention for Trademark and Commercial Protection. Colombia requires registration and use of a trademark in Colombia to exercise trademark protection. Trademark registration has a 10-year duration and may be renewed for successive 10-year periods. Thus, the Colombian law provides 20-year protection for patents and reversal of burden of proof in cases of alleged patent infringement. Andean Community Decision 486 was approved on September 14, 2000, after the pharmaceutical industry, which has been particularly affected by inadequate protection of confidential data, requested that Decision 344 be amended to ensure compliance with WTO requirements. Decision 486, which will come into force on December 1, 2000, provides improved protection to patents, trademarks, industrial inventions, rules of origin and unlawful competition related to industrial property. This decision eliminates previous restrictions on biotechnology inventions, increases protection of industrial designs from eight to ten years, and protects integrated circuits (microchips) designs. However, Decision 486 appears to have shortcomings with respect to protection of data confidentiality and protection for second-use patents. Enforcement of trademark legislation in Colombia is showing some progress, but contraband and counterfeiting are widespread. U.S. pharmaceutical firms continue to press for a range of legislative and administrative reforms. The Superintendency of Industry and Commerce acts as the local patent and trademark office in Colombia. This agency suffers greatly from inadequate financing and a backlog of trademark and patent applications exceeding 25,000, although new applications are now generally received within nine months.

Copyrights: Colombia's 1993 Copyright Law increased penalties for copyright piracy. In April 1999 President Pastrana issued a directive to all government and educational institutions to respect copyrights and avoid the use or purchase of pirated printed works, software and audio/video material. The most recent available data from the International Intellectual Property Alliance (IIPA) suggests that U.S. industries continue to lose substantial revenue from piracy: $163.2 million in 1999. Enforcement problems consistently arise not only with inadequate police activity, but also in the judicial system, where there have been complaints about the lack of respect for preservation of evidence and frequent perjury. The IIPA estimates that in Colombia videocassette piracy represents approximately 55 percent of the video market; sound recording piracy 60 percent of the market; business software piracy 56 percent of the market; and entertainment software piracy 75 percent of the market.

New Technologies: Colombia has a modern copyright law which gives protection for computer software for 50 years and defines computer software as copyrightable subject matter but does not classify it as a literary work. Semiconductor design layouts are not protected under Colombian law.

9. Worker Rights

a. *The Right of Association:* Colombian law recognizes the rights of workers to organize unions and to strike. The labor code provides for automatic recognition of unions that obtain at least 25 signatures from potential members and that comply with a simple registration process at the Labor Ministry. The law penalizes interference with freedom of association. It allows unions to freely determine internal rules, elect officials and manage activities, and forbids the dissolution of trade unions by administrative fiat. Unions are free to join international confederations without government restrictions. In 1999 President Pastrana approved Law 584, which limits government interference in a union's right to free association.

b. *The Right to Organize and Bargain Collectively:* The constitution protects the right of workers to organize and engage in collective bargaining. Workers in larger firms and public services have been the most successful in organizing, but these organized workers represent only a small portion of the economically active population. According to estimates by the Ministry of Labor and various unions, approximately five percent of the Colombian work force is organized into over 2,500 registered unions, 87 to 95 percent of which are organized in one of three confederations (CTC, CGTD, and CUT). However, accurate estimates are difficult to obtain due to the high rate at which new unions are created and old ones disappear. High unemployment (20.2 percent as of June 2000), traditional anti-union attitudes, union disorganization and weak leadership limit workers' bargaining power in all sectors.

In May 1998 the International Labor Organization (ILO) expressed serious concern at allegations of murders, forced disappearances, death threats, and other acts of violence against trade union officials and members. The ILO documented more than 300 murders of trade union members during 1995–98. In June 2000 the ILO governing body considered recommendations from a November 1999 Direct Contact Mission, which included an urgent inquiry into the participation of public officials in the creation of paramilitary groups, an increase in government budgetary allocations to protect trade union officials, and an increase in efforts to combat impunity. The ILO compromised to appoint a Special Representative to follow up on the conclusions of the Direct Contact Mission. This representative was expected to begin work in Colombia in October 2000.

Labor leaders throughout the country continued to be targets of attacks by paramilitary groups, guerrillas, narcotics traffickers, and their own union rivals. Labor federation members reported 30 union members killed during the first eight months of 2000. According to the National Labor School, more than 2,000 union members have been murdered since 1986.

c. *Prohibition of Forced or Compulsory Labor:* The constitution forbids slavery and any form of forced or compulsory labor, and this prohibition is respected in practice in the formal sector. However, women were trafficked for the purpose of forced prostitution, paramilitary forces and guerrilla groups forcibly conscripted indigenous people, and several thousands of children were forced to serve as paramilitary or guerrilla combatants, to work as prostitutes, or in some instances as coca pickers.

d. *Minimum Age for Employment of Children:* The constitution bans the employment of children under the age of 14 in most jobs. The Minors' Code, established in 1989 under Decree 2737, prohibits the employment of children under the age of 12, and stipulates exceptional authorization by Labor Ministry inspectors for the employment of children between the ages of 12 and 17. These provisions are respected in large enterprises and in major cities. Nevertheless, Colombia's extensive and expanding informal economy remains effectively outside government control. Statistics vary; according to different studies (Los Andes University, and the Catholic Church are among the most reliable), there are between 1.6 and 2.7 million working children between the ages of 12 and 17, 80 percent of which were employed in the informal sector. Approximately 25 percent of working children were employed in potentially dangerous activities. According to official estimates, there are 1.6 million working children in Colombia, but this figure does not include children in the informal sectors of the economy and child guerrilla fighters. Child labor in urban centers typically involves children no more than five or six years old selling sweets on the streets or on buses or, sometimes, simply begging. Other work activities include cleaning car windshields at traffic lights. Child prostitution is also a problem. In rural areas, children also work, often under substandard conditions, in agriculture, in leather tanning, and in small family-operated mines.

e. *Acceptable Conditions of Work:* The government sets a uniform minimum wage for workers every January to serve as a benchmark for wage bargaining. The minimum wage for 2000 is approximately $125 (260,106 pesos) per month. Although the minimum wage annual increase is based on the government's target inflation rate, the minimum wage has not kept up with inflation. By government estimates, the price of the low-income family shopping basket ("canasta familiar") is 2.4 times the minimum wage. For medium-income families, the price of the shopping basket is 6.1 times the minimum wage. Seventy-seven percent of the Colombian workers earn twice the minimum wage or less. The law provides for a standard 8-hour workday and 48-hour workweek, but does not specifically require a weekly rest period of at least 24 hours. Legislation provides comprehensive protection for workers' occupational safety and health, but these standards are difficult to enforce, in part due to the small number of Labor Ministry inspectors.

f. *Rights in Sectors with U.S. Investment:* U.S. foreign direct investment is concentrated principally in the petroleum, coal mining, chemicals and manufacturing industries. Worker rights conditions in those sectors tend to be superior to those prevailing elsewhere in the economy, owing to the large size and high degree of organization of the enterprises.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		973
Total Manufacturing		1,212
Food and Kindred Products	305	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999—Continued

[Millions of U.S. Dollars]

Category	Amount	
Chemicals and Allied Products	304	
Primary and Fabricated Metals	([1])	
Industrial Machinery and Equipment	–7	
Electric and Electronic Equipment	([1])	
Transportation Equipment	([1])	
Other Manufacturing	([1])	
Wholesale Trade		130
Banking		([1])
Finance/Insurance/Real Estate		929
Services		62
Other Industries		([1])
TOTAL ALL INDUSTRIES		4,029

([1]) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

COSTA RICA

Key Economic Indicators [1]

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP [2]	13,889	15,404	16,500
Real GDP Growth (pct) [3]	8.0	8.0	4.7
GDP by Sector (pct):			
Agriculture	11.4	11.0	10.8
Industry	22.4	26.0	26.0
Services	43.1	39.9	40.2
General Government	23.1	23.1	23.0
Per Capita GDP (US$)	3,769	3,856	3,950
Labor Force (000s)	1,377	1,383	1,400
Unemployment Rate (pct)	5.6	6.0	6.4
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	17.5	16.4	16.0
Consumer Price Index	12.4	10.1	11.0
Exchange Rate (Colones/US$ annual average)			
Official	None	None	None
Parallel	267.1	282.0	309.0
Balance of Payments and Trade:			
Total Exports FOB [4]	5,523.3	6,648.5	6,450.0
Exports to United States [4]	2,551.0	3,452.0	3,350.0
Total Imports CIF [4]	6,238.7	6,350.7	6,450.0
Imports from United States [4]	3,464.0	3,577.0	3,400.0
Trade Balance [4]	–739.3	230.5	0.0
Balance with United States [4]	–913.0	–125.0	–50.0
External Public Debt	2,872.4	3,057.0	3,350.0
Fiscal Deficit of Public Sector/GDP (pct)	2.0	3.3	3.0
Current Account Deficit/GDP (pct)	3.6	3.2	3.2
Foreign Debt Service Payments/GDP (pct)	0.3	0.5	0.6
Gold and Foreign Exchange Reserves	991.3	1,471.4	1,300.0
Aid from United States	0	9.0	0
Aid from All Other Sources	N/A	N/A	N/A

[1] 2000 figures are all estimates based on available monthly data in September.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.

[4] Merchandise trade. U.S. trade date figures are lower for U.S. exports to Costa Rica ($2,296 million in 1998 and $2,381 million in 1999) compared to Costa Rica's data for imports from the U.S. largely due to country of origin accounting for INTEL trade.

1. General Policy Framework

The Costa Rican economy is based on a free market system and relatively open trading regime. There are, however, several large public sector monopolies in electricity transmission and distribution, telecommunications, petroleum distillation and distribution and insurance. The Costa Rican economy performed well in 1998 and 1999, with eight percent real GDP growth each year. Growth has been led by foreign investments, notably Intel Corporation, in free trade zones, and by a fast-growing tourism industry. Traditional agricultural activities such as banana, coffee, beef and dairy production have fared less well in an atmosphere of increased global competition and low agricultural commodity prices.

Costa Rica's most pressing economic problem is the fiscal deficits of the central government and the combined public sector. The fiscal deficit of the combined public sector was equivalent to 3.3 percent of GDP in 1999, and the cost of servicing the interest on the accumulated public sector debt equals approximately 30 percent of the government's total revenues. The deficit and debt-financing requirement limit the government's access to resources for needed infrastructure improvements. Moreover, most of the debt is financed in domestic capital markets, placing upward pressure on interest rates.

The Rodriguez Administration, inaugurated in May 1998, initially proposed selling state monopolies that control key parts of the country's infrastructure. However, it has been unable to achieve a political consensus on the appropriate roles of the public and private sectors in fields such as telecommunications, energy and insurance. In place of privatization, concessions to build and manage public works are being pursued by the government. A consortium led by a U.S. firm signed a contract on October 18, 2000 to manage the Juan Santamaria International Airport in San Jose after winning an open bidding process in 1999. A request for offers to rebuild and operate the country's railroads is expected before the end of 2000. Concessions to operate prisons and the country's principal Pacific seaport are expected follow.

Costa Rica has reduced most tariff rates for imported goods to 15 percent or lower in unison with its Central American neighbors. Costa Rica has a free trade agreement with Mexico and is pursuing new agreements with Chile, the Dominican Republic, Trinidad and Tobago, Panama and Canada. Costa Rica joined the so-called Cairns Group of agricultural free traders at the beginning of 2000. These market-opening initiatives are consistent with the global economic outlook of the Rodriguez administration and its predecessor, which have viewed the attraction of foreign investment in export-oriented, high-technology industry as source of the country's future economic growth. Costa Rica's exports per capita are now among the highest in Latin America and the Caribbean. However, elements of the traditional agricultural sector are resisting further market opening and are seeking to slow the pace of reform within the Legislative Assembly.

2. Exchange Rate Policy

Costa Rica's exchange rate has followed a "crawling peg" of small daily changes since 1993. The rate of devaluation, indirectly set by the Central Bank, is driven by the market and is adjusted by the Central Bank through its sale or purchase of foreign currency. Virtually all public and private business is transacted at the same rate. Commercial banks are free to negotiate foreign exchange prices but must liquidate their foreign exchange positions daily with the Central Bank. There are no controls on holding or remitting foreign exchange.

The colon-to-dollar exchange rate rose 9.9 percent during 1999, a rate similar to the change in the aggregate price level. Depreciation was running at an annual rate of approximately 6 percent through September 2000, less than projected 11 percent inflation for the year. The slower pace of daily devaluation has been a component of the Central Bank's policy to rein in inflation, but that policy may have been overshadowed by rapidly rising energy prices.

3. Structural Policies

Prices are set by the market, except in sectors controlled by the state (e.g., fuel, electricity, and telecommunications). Government procurement is generally by open public tender in which foreign suppliers are free to compete. Antitrust legislation and rules protect consumers against product misrepresentation and price fixing.

Tax collection is approximately 40 percent from customs duties and 20 percent each from income tax, the value-added tax, and other sources. Companies in free trade zones benefit from income tax holidays and duty exoneration on imported inputs that are subsequently re-exported. There have been no recent tax modifications that affect the import of U.S. goods and services.

Regulatory policies do not discriminate against U.S. exports.

4. Debt Management Policies

Costa Rica's foreign official debt totaled $3.057 billion on December 31, 1999. This was equivalent to 19.8 percent of GDP. Costa Rica placed dollar-denominated bonds for $200 million in April 1998, $300 million in April 1999, and $250 million in July 2000 to take advantage of relatively low interest rates available in the Eurodollar market, reduce the government's debt servicing burden, and take upward pressure off of domestic interest rates. The domestically financed portion of public sector debt was equivalent to $5.354 billion at the end of 1999, placing total public sector debt at 34.8 percent of GDP.

Costa Rica's July 2000 placement of $250 million of bonds in the international market benefited from Moody's decision to upgrade Costa Rica's foreign official debt from stable to positive, a step away from investment grade. Standard & Poor's followed suit shortly after the bonds were placed with a twenty-year maturity and 9.99 percent interest rate.

Costa Rica does not have IMF or World Bank adjustment programs and has not been to the Paris Club for debt rescheduling in recent years.

5. Aid

The U.S. Agency for International Development does not have a permanent bilateral relationship with Costa Rica. U.S. government agencies provided a combined $9 million of assistance in fiscal years 1999 and 2000 to assist Costa Rica with the effects of Hurricane Mitch and the flow of refugees from other countries that followed. Costa Rica abolished its military forces in 1948. The United States provides some financial assistance to Costa Rican Coast Guard and civilian police programs that cooperate with U.S. law enforcement agencies engaged in combating narcotics trafficking.

6. Significant Barriers to U.S. Exports

Costa Rica replaced all import licenses and permits when it joined the WTO in 1994. The Central Bank now monitors imports for statistical purposes only. The current tariff on most goods is between one and fifteen percent of the CIF price, with a few items such as poultry and automobiles taxed at higher levels. Solvents and chemical precursors used in the elaboration of illegal drugs are carefully regulated. Surgical and dental instruments and machinery can be sold only to licensed importers and health professionals. All food products, medicines, toxic substances, chemicals, insecticides, pesticides and agricultural inputs must be registered and certified by the Ministry of Health prior to sale.

Foreign companies and persons may legally own real estate and equity in Costa Rican companies, including companies engaged in most service businesses. Individual or firms seeking concessions for beachfront land, which by law belongs to local governments, must be Costa Rican or meet certain residency requirements. Foreign individuals may establish businesses once they are legal residents of Costa Rica. However, several activities are reserved for the state, including telecommunications, the transmission and distribution of electricity, hydrocarbon and radioactive mineral extraction and refining, insurance underwriting, and the construction and operation of ports and airports. Representatives or distributors of foreign products must have resided in Costa Rica for at least ten years. Medical practitioners, lawyers, certified public accountants, engineers, architects, teachers and other professionals must be members of local guilds, which stipulate residency, examination and apprenticeship requirements that cannot be met by newcomers.

Legislation approved in October 1995 allowed private banks to offer demand deposits. However, private banks must be incorporated locally; branches of foreign banks are not permitted. The three state-owned commercial banks still account for well over half of the country's demand deposits.

Documentation and labeling of U.S. exports to Costa Rica must use the metric system and contain specific information in Spanish. Car bumpers are subject to strength requirements. Phytosanitary and zoosanitary restrictions and high tariffs significantly constrain imports of some agricultural products. The Ministry of Health must approve imports of pharmaceuticals, veterinary drugs and pesticides, and the same items must be legally available in the exporting country.

National treatment is granted for most investments. Exceptions include power generation for sale to the national grid, where 35 percent Costa Rican equity is required, and radio and television broadcasting, where Costa Rican majority ownership is required. Costa Rican laws have encouraged the development of tourism and nontraditional exports, but incentive programs have been eliminated or scaled back in recent years. Export performance requirements are limited to free trade zones, where companies must be engaged in export industries to qualify for an income tax holiday. Income tax holidays are scheduled to end in 2003 due to Costa Rica's WTO commitments. There are no local content requirements. The Labor Code ordinarily limits the percentage of foreign workers that can work in an enterprise to 10 percent of the total work force. Foreigners may account for no more than 15 percent of the total payroll. Permits for foreign participation in management are routinely granted. No requirements exist for foreign owners to work in their own companies. There are no restrictions on the repatriation of profits and capital.

The government and other state institutions procure goods and services through open public tenders. However, the General Law on Financial Administration allows private tenders and direct contracting of goods and services in relatively small quantities or, in case of emergency, with the consent of the Controller General (General Accounting Office). Public bidding is complicated and highly regulated, with the result that foreign bidders are frequently disqualified for failure to comply exactly with the required procedures. Appeals of contract awards are common, lengthy and costly. No special requirements apply to foreign suppliers, and U.S. companies regularly win public contracts. However, foreign suppliers without a legal representative in Costa Rica are disadvantaged in dealing with the government procurement process.

Past government expropriation policies have created problems for some U.S. investors. The government has expropriated large amounts of land for national parks and for ecological and indigenous reserves, but compensation was rarely, if ever, prompt. Some unpaid expropriation claims date back over 25 years. New legislation in 1995 improved the situation by requiring compensation as a prior condition for effecting an expropriation. Resolution of investment disputes remains difficult, however. The courts take an average of eight years to resolve civil suits. Recourse to international arbitration is possible through the International Center for the Settlement of Investment Disputes (ICSID) as of 1993, and several domestic arbitration bodies have been established, but in practice there has been little recourse to arbitration by parties to investment disputes. Landowners in Costa Rica also run the risk of losing their property to squatters, who are often organized and sometimes violent. A U.S. citizen and long-term resident of Costa Rica was killed in November 1997 in a dispute over an ocean front land concession granted by a municipal government. Squatters enjoy certain rights under Costa Rican land tenure laws and can eventually receive title to the land they occupy if the occupation is left unchallenged by the landowners. Police protection of landowners in rural areas is often inadequate.

Customs procedures are often costly and complex, but they do not discriminate between Costa Ricans and foreign traders. Most large firms have customs specialists on the payroll, in addition to contracting the mandatory services of customs brokers. Customs brokers must be Costa Rican nationals.

7. Export Subsidies Policies

The Export Processing Law of 1981 permits companies in designated free trade zones to be exempted from paying duties on imported inputs that are incorporated into exported products. It also provides holidays on income and remittance taxes that are to be phased out in 2003 as called for by the WTO. The Active Processing Regime of 1997 offers similar duty-free entry for imported inputs but does not provide tax holidays.

8. The Protection of U.S. Intellectual Property

Costa Rica belongs to the WTO and the World Intellectual Property Organization (WIPO). Costa Rica is also a signatory to the Paris Convention, Bern Convention, Lisbon Agreement, Rome Convention, Phonograms Convention and the Universal Copyright Convention and the 1996 WIPO copyright and phonograms treaties. Costa Rica is on the "Special 301" Watch List for 2000, due to widespread copyright and trademark piracy.

Significant weaknesses continue to exist in copyright and trademark enforcement. The Legislative Assembly passed eight new laws in 2000 to bring domestic legislation into compliance with WTO TRIPS Agreement, finishing with the law on enforcement passed in October 2000. Representatives of industries affected by copyright piracy have expressed concern that penalties and enforcement procedures codified by the new legislation are inadequate.

Patents: The new legislation passed in 2000 provides for 20-year patents, replacing shorter periods in the previous legislation. There is some concern that the transition from one-year patents for pharmaceuticals and agricultural chemicals to twenty-year patents will leave some products, in use before the new law was published but not registered with Costa Rica's patent office, vulnerable to piracy. No patent protection has been available for plant or animal varieties or for any biological or microbiological process or products. However, the government is working on a legislative proposal that would protect such products within the framework of the Convention for the Protection of New Varieties of Plants (UPOV).

Trademarks: Trademarks, service marks, trade names and slogans can be registered in Costa Rica. Registration is renewable for 10-year periods. Counterfeit goods, particularly designer jeans and sportswear, are widely available. Enforcement has been difficult due to the lack of adequate legislation specifying the nature of a trademark violation and the penalties associated with the violation. Affected companies believe the new enforcement legislation will make effective criminal prosecution of violators possible, but the law has yet to be tested.

Copyright: Costa Rica's copyright laws are generally adequate, though some industries believe that there is insufficient protection against parallel imports of copyrighted goods into markets with exclusive distribution rights. Software, audio and other industries vulnerable to copyright violations are also concerned that the new enforcement legislation is inadequate because it: 1) requires the party whose copyright is violated to file a complaint before a case will be prosecuted criminally; and 2) provides lesser penalties against violators than copyright owners requested.

Costa Rica enacted new legislation in 2000 providing protection to integrated circuit designs. Satellite signal piracy exists, particularly in rural areas, but major metropolitan cable television operators carry programming that is, in most part, legally acquired.

The International Intellectual Property Association estimates losses of $14.4 million in 1999 due to illegal copying of business software, motion pictures and sound recordings. Estimates of losses are not available for the illegal copying of entertainment software or counterfeit sportswear, which are known problems in Costa Rica.

9. Worker Rights

a. *The Right of Association:* Costa Rican law specifies the right of workers to join labor unions of their choosing without prior authorization. Nevertheless, some barriers exist in practice. Unions operate independently of government control and may form federations and confederations and affiliate internationally. Many Costa Rican workers join solidarity associations, under which employers provide easy access to saving plans, loans, recreation centers, and other benefits in return for their agreement to employ non-confrontational methods to settle disputes. Both solidarity associations and labor unions coexist at some workplaces, primarily in the public sector. Business groups claim that solidarity associations provide for better working conditions and labor relations than in firms where workers are represented by unions. However, labor unions allege that private businesses use solidarity associations to prevent union organization in contravention of International Labor Organization rules.

b. *The Right to Organize and Bargain Collectively:* The constitution protects the right to organize. Reforms to the Labor Code enacted in 1993 provide protection from dismissal for union organizers and members during union formation and require employers found guilty of discrimination to reinstate workers fired for union activities. Costa Rica has no restrictions on the right of private sector employees to strike or engage in collective bargaining. The constitutionality of public sector collective bargaining agreements was recently challenged in the Supreme Court, which ruled that public workers were covered by the Civil Service Code and could not bargain for benefits not encompassed by that law.

c. *Prohibition of Forced or Compulsory Labor:* The Constitution prohibits forced or compulsory labor and requires employers to provide adequate wages to workers in accordance with minimum wage and salary standards. Laws prohibit forced and bonded labor by children. The government enforces this prohibition effectively.

d. *Minimum Age for Employment of Children:* The Children's Code enacted in 1992 prohibits the employment of children under 15 years of age. The Ministry of Labor can issue waivers to this provision in cases where children under 15 already depend on jobs for their livelihood, with the goal of moving gradually toward the elimination of child labor. The constitution provides special employment protection for women and youth. Children between 15 and 18 can work a maximum of seven hours daily and 42 hours weekly, while children between 12 and 15 can work a maximum of five hours daily and 30 hours weekly. The National Children's Institute, in cooperation with the Ministry of Labor, enforces these regulations in the formal sector, but child labor remains an integral part of the informal economy.

e. *Acceptable Conditions of Work:* The Constitution provides for a minimum wage, and a national wage council sets minimum wage and salary levels every six months. Workers may work a maximum of eight hours during the day and six at night, up to weekly totals of 48 and 36 hours, respectively. Industrial, agricultural and commercial firms with ten or more workers must establish management-labor committees and allow government workplace inspections. Workplace enforcement is less effective outside the San Jose area.

f. *Rights in Sectors with U.S. Investment:* Labor regulations apply throughout Costa Rica, including in the country's free trade zones. Companies in sectors with significant U.S. investment generally respect worker rights, especially at plants under U.S. ownership and management. Abuses occur more frequently at plants operated by investors based outside the United States.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		30
Total Manufacturing		663
Food and Kindred Products	111	
Chemicals and Allied Products	158	
Primary and Fabricated Metals	24	
Industrial Machinery and Equipment	([1])	
Electric and Electronic Equipment	85	
Transportation Equipment	0	
Other Manufacturing	([1])	
Wholesale Trade		867
Banking		0
Finance/Insurance/Real Estate		4
Services		–2
Other Industries		83
TOTAL ALL INDUSTRIES		1,646

([1]) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

DOMINICAN REPUBLIC

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP [2]	16.2	17.7	N/A
Real GDP Growth (pct) [3]	7.3	8.4	5.9
GDP by Sector:			
Agriculture	2.1	5.2	6.0
Manufacturing	2.9	6.7	N/A
Services	5.2	8.4	N/A
Government	1.1	3.1	N/A
Per Capita GDP (US$)	1,827	1,927	N/A
Labor Force (000s)	2,889	2,965	N/A
Unemployment Rate (pct)	14.4	13.8	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	15.9	24.1	N/A
Consumer Price Inflation	7.8	5.1	10.0
Exchange Rate (DR Peso/US$ annual average)			
Official	14.70	15.83	16.80
Parallel	15.16	15.95	18.00
Balance of Payments and Trade:			
Total Exports FOB [4]	4.98	5.20	5.60
Exports to United States [4]	3.98	4.09	N/A
Total Imports CIF [4]	7.60	8.21	9.10
Imports from United States [4]	4.44	4.28	N/A

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Trade Balance (US$ millions) [4]	–2.62	–3.01	–3.50
Trade Balance with United States [4]	–0.46	–0.19	N/A
External Public Debt	3.54	3.64	3.74
Fiscal Deficit/GDP (pct)	0.2	0.7	N/A
Current Account Deficit/GDP (pct)	–2.1	–2.9	–4.5
Debt Service Payments/GDP (pct)	2.3	2.1	N/A
Gold and Foreign Exchange Reserves	0.66	0.88	0.20
Aid from United States (US$ millions) [5]	14.6	50.5	13.9
Aid from All Other Sources	50.8	152.2	N/A

[1] 2000 figures are all estimates based on available monthly data through June.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise Trade; exports FAS, imports customs basis.
[5] Military aid equaled US$880,000 in both 1998 and 1999.

Source: Economic Studies Department, Central Bank of the Dominican Republic.

1. General Policy Framework

President Hipolito Mejia took office on August 16, 2000, pledging to maintain the macroeconomic stability that has helped the Dominican Republic achieve high levels of growth over the past five years. At the same time, he made clear his intention to share the benefits of that growth more broadly through increased government attention to education, housing, agriculture and health. His plans for new initiatives in these areas have been hampered by the impact on government finances of high world oil prices and election year spending in the waning months of the Fernandez Administration. These have caused a drain on foreign exchange reserves and left a large fiscal deficit. In early November 2000 the new Mejia government proposed a series of tax measures, including an increase in the value added tax from eight to twelve percent; a new minimum income tax equal to two percent of gross revenues; increases in selective consumption taxes on automobiles, alcoholic beverages and tobacco products; and an across-the-board reduction in tariff levels, in order to close the government's fiscal deficit and to provide funds for new government programs. The package must pass the Dominican Congress before it becomes law.

While at least a modest devaluation of the Dominican peso now seems inevitable, growth is expected to remain high (around six percent for 2000) thanks in large part to the recently passed Caribbean Basin Trade Partnership Act (CBTPA) that provides tariff benefits for Dominican textiles and other products. Inflation, which was only 1.4 percent for the first half of 2000, is expected to end the year at around 10 percent.

Because of the Dominican Republic's high propensity to import, changes in the exchange rate are politically significant. The need to keep the peso stable forces the Central Bank to maintain a high interest rate structure to retain short-term capital. Foreign exchange operations also play a role in meeting money supply targets since the Central Bank's purchase of pesos for dollars tends to reduce the money in circulation within the country.

The Central Bank regulates the money supply by issuance of new money through the banking system, by the purchase or issuance of debt instruments of the Central Bank itself, and at times by direct limits on bank sector net assets. Since there is no secondary market for government securities and no liquid security market, the tools available to the Central Bank are limited. The Central Bank can modify bank reserve requirements but rarely does so. Banks resort to the discount window of the Central Bank only rarely. The Superintendency of Banks has continued its work to improve banking regulation. Although the Dominican Republic has no deposit insurance, the Central Bank guaranteed deposits at Bancomercio, the country's third largest bank, when it failed in early 1996, and subsequently supervised its sale to another Dominican bank. There have been no significant bank failures since then.

The government has continued timely payments of foreign private bank debt and payments on renegotiated Paris Club debt. The government has also, however, accumulated large arrears to domestic suppliers and contractors, although some efforts have been made to pay this down. For example, in September 1999 the government agreed to pay off $125 million in debts of the State Sugar Council in connection with the privatization of that entity. The government also began in 2000 to issue bonds under new legislation that authorized liquidation of around $300 million in internal debt. The central government continues to provide subsidies to some state enterprises without regard to efficiency or production targets, but has moved decisively on privatization of electricity, sugar, flour, and airports.

2. Exchange Rate Policy

The official exchange rate is set by the Central Bank. On July 2, 1998 the peso was devalued nine percent from 14.02 pesos/dollar to 15.33 pesos/dollar. It has continued to devalue slowly since then with the most recent official rate (October 2000) set at 16.43 pesos/dollar. The unofficial rate has also devalued and is currently in the range of 16.33 pesos to the dollar. An October 1999 increase in the fee for purchasing foreign currency to 5 percent (up from 1.75 percent) effectively further devalued the peso. Traditional exporters such as sugar, cocoa, and coffee producers, credit card companies, and airlines are still required by law to sell foreign exchange to the Central Bank at the official rate, but most businesses and individuals are free to carry out foreign exchange transactions through the commercial bank system. The market rate is influenced by Central Bank activities such as dollar sales and the use of its considerable regulatory discretion to "jawbone" banks.

3. Structural Policies

Most domestic prices are determined by market forces, although distortionary government policies sometimes limit the operation of these forces. High tariff and non-tariff barriers also increase the cost of doing business in the Dominican Republic. Since tariff reform was enacted by presidential decree in 1990 and modified by law in 1993, no further reform has affected U.S. exporters. Following the negotiation of a free trade pact with Central America, however, the Fernandez administration submitted a new proposal to the Congress to decrease tariff levels to Central American levels (i.e. a top tariff of 20 percent). In November 2000 the Mejia government resubmitted this proposal to the Congress as part of its tax package.

The 1990 tariff regime reduced and simplified the tariff schedule to six categories with seven tariff rates ranging from 3 to 35 percent. It also replaced some quantitative import restrictions with tariffs and transformed all tariffs to ad valorem rates. Since nearly 40 percent of government revenues come from duties, taxes and fees collected on imports, the government's flexibility in trade policy is limited.

The Dominican Republic has ratified the GATT 94 and participates in World Trade Organization (WTO) meetings. The Dominican government has yet to determine an equitable and transparent method of quota distribution to implement its rectification agreement for eight protected agricultural products. In addition, the Dominican Republic has a discretionary import permit requirement for some agricultural products, especially beef and pork.

The government has continued to implement changes in its tax system aimed at increasing revenues. The concept of taxable income has been enlarged, marginal tax rates on individuals and companies reduced and capital gains are no longer considered exempted income. In November 2000 the government proposed a series of tax measures to boost revenues and reduce its deficit, including an increase in the Dominican Republic's value added tax, increased selective consumption taxes, and creation of a new minimum income tax equal to two percent of gross revenues. In May 1992 a new labor code was promulgated with provisions that increased a variety of employee benefits. After an increase of 25 percent in 1997, public sector minimum wages have not increased. President Mejia recently proposed a ten-percent increase in government minimum wages as part of his November 2000 tax package.

Government policy prohibits new foreign investment in a number of areas including national defense production, forest exploitation and domestic air, surface and water transportation. Government regulations, such as the process required to obtain the permits to open new businesses, hinder economic growth and innovation. The difficulties of protecting intellectual property rights have slowed the use of modern medicines. Investment in modern agricultural techniques is impeded by a chaotic land tenure system and the unwillingness of large landowners to modernize.

4. Debt Management Policies

A significant portion of the Dominican Republic's official debt was rescheduled under the terms of Paris Club negotiations concluded in November 1991. In August 1994 the government successfully concluded debt settlement negotiations with its commercial bank creditors. The deal involved a combination of buy-back schemes and U.S. Treasury-backed rescheduling. Payment to foreign private and public creditors in the financial sector has generally been current since then. A September 1999 Dominican request to defer Paris Club debt payments due in the first half of 2000 was denied. Government payments to foreign non-financial institutions are notoriously slow. Some debts are over ten years old.

5. Significant Barriers to U.S. Exports

Trade Barriers: Tariffs on most products fall within the 3 to 35 percent range. In addition, the government imposes a 5 to 80 percent selective consumption tax on "non-essential" imports such as home appliances, alcohol, perfumes, jewelry, and automobiles. In early 2000 the government adjusted the formula for determining the base on which to apply the selective consumption tax to imported liquor following complaints from importers that the old formula discriminated against them in violation of WTO commitments. In November 2000 the Mejia government proposed reducing tariffs across the board, with a new minimum rate of 20 percent. The proposal also included an increase in selective consumption taxes on automobiles, alcoholic beverages and tobacco products.

The Dominican Republic requires a consular invoice and "legalization" of documents, which must be performed by a Dominican Consulate in the United States Fees for this service vary by consulate but can be quite substantial. Some importers now pay the consular invoice fee in Santo Domingo directly to customs. Moreover, importers are frequently required to obtain licenses from the Dominican Customs Service.

Customs Procedures: Bringing goods through Dominican Customs can often be a slow and arduous process. Customs Department interpretation of exonerated materials being brought into the country often provokes complaints by businesspersons. The use of "negotiated fee" practices to gain faster customs clearance continues to put some U.S. firms at a competitive disadvantage in the Dominican market. Customs officials routinely reject invoice prices as a basis for computing duties and customs fees and use their own assumed value database. This applies to virtually all non-free trade zone imports. The Dominican government has promised to implement promptly the WTO Customs Valuation Code by July 2001.

Government Procurement Practices: The Dominican Republic has a centralized Government Procurement Office, but the procurement activities of this office are basically limited to expendable supply items of the government's general office work. In practice, each public sector entity has its own procurement office, both for transactions in the domestic market and for imports. Provisions of the U.S. Foreign Corrupt Practices Act often put U.S. bidders on government contracts at a serious disadvantage in what are sometimes non-transparent bidding procedures.

Investment Barriers: Legislation designed to improve the investment climate passed in November 1995. The legislation does not contain procedures for settling disputes arising from Dominican government actions. The seizures of foreign investors' property by past governments which are still unresolved, refusal to honor customs exoneration commitments, and the government's slowness in resolving claims for payment reduce the attractiveness of the investment climate, notwithstanding passage of the 1995 legislation. Foreign investment must receive approval from the Foreign Investment Directorate of the Central Bank to qualify for repatriation of profits (the new law provides for repatriation of 100 percent of profits and capital and nearly automatic approval of investments).

The electricity sector is a weak link in the Dominican economy with long blackouts, especially in the hot summer months, a regular occurrence. The state electricity company's distribution units and thermal generation facilities were capitalized in 1999, and are now under the control of private sector operators. This, together with new investments underway in both power generation and transmission, should improve the electricity situation over the next few years.

Foreign employees may not exceed 20 percent of a firm's work force. This does not include foreign employees who perform managerial or administrative functions only.

Dominican expropriation standards (e.g., in the "public interest") do not appear to be consistent with international law standards. Several investors have outstanding disputes concerning expropriated property. The government continues to maintain that it wishes to resolve these issues although progress has been slow. The Dominican Republic does not recognize the general right of investors to binding international arbitration.

All mineral resources belong to the state, which controls all rights to explore or exploit them. Private investment has been permitted in selected sites. Currently, foreign investors are exploring for gold, natural gas, nickel and copper. The process of choosing and contracting such activities has not always been transparent.

6. Export Subsidies Policies

The Dominican Republic has two sets of legislation for export promotion: the Free Trade Zone Law (Law no. 8–90, passed in 1990) and the Export Incentive Law (Law no. 69–79, passed in 1979). There is no preferential financing for local exporters nor is there a government fund for export promotion.

The Free Trade Zone Law provides 100 percent exemption on all taxes, duties, and charges affecting the productive and trade operations at free trade zones. These incentives are provided to specific beneficiaries for up to 20 years, depending on the location of the zone. This legislation is managed jointly by the Foreign Trade Zone National Council and the Dominican Customs Service. Investors operating in the Dominican Republic's Free Trade Zones (FTZs) experience far fewer problems in dealing with the government than do investors working outside the zones. For example, materials coming into or being shipped out of the zones are reported to move quickly, without the kinds of bureaucratic difficulties mentioned above.

The Export Incentive Law provides for tax and duty free treatment of inputs from overseas that are to be processed and re-exported as final products. This legislation is managed by the Dominican Export Promotion Center and the Customs Service. In practice, use of the export incentive law to import raw materials for process and re-export is cumbersome and delays in clearing customs can take anywhere from 20 to 60 days. This customs clearance process has made completion of production contracts with specific deadlines difficult. As a result, non-free trade zone exporters rarely take advantage of the Export Incentive Law. Most prefer to import raw materials using the normal customs procedures which, although more costly, are more rapid and predictable.

7. Protection of U.S. Intellectual Property

The Dominican government has taken several steps to improve protection of intellectual property rights, but piracy remains a serious problem. The Dominican Republic belongs to the WTO, and is a signatory to the Paris Convention, Bern Convention, Madrid Agreement, and the Rome Convention. In 1998, 1999 and 2000, the U.S. Trade Representative placed the Dominican Republic on the "Special 301" Priority Watch List because it continues to have inadequate enforcement of its existing laws and a legal regime that does not meet international standards.

Patents: Patents are difficult to receive and enforce against a determined intellectual property thief. In a local pharmaceutical market worth approximately $110 million per year, 70 percent of the total is locally produced or packaged. A significant percentage of that total is believed to be pirated. Resolutions issued by the government at year-end 1996 and early 1997 further encourage the violation of pharmaceutical patents in the Dominican Republic. In 1999, however, the Supreme Court upheld the rights of a foreign patent holder against a local laboratory. New patent legislation passed in 2000 does not appear to be wholly in compliance with the Dominican Republic's obligations under the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). The Mejia government has pledged, however, in connection with its bid for eligibility for CBTPA benefits, to bring IPR protection up to TRIPS standards.

Trademarks: Apparel and other trademarked products are counterfeited and sold in the local market. Although the Dominican government is taking a more activist stance toward remedying shortcomings in this area, including seizure of pirated goods, protection remains problematic.

Copyright: Despite copyright laws that are generally adequate and improved efforts at enforcement, piracy of copyrighted materials is still widespread. Video and audio recordings and software are being counterfeited despite the government's efforts to seize and destroy pirated goods. Some television and cable operators are rebroadcasting signals without compensating either the original broadcaster or the originator of the recording. The Motion Picture Association of America (MPAA) estimates that losses in the Dominican Republic due to theft of satellite-carried programming are one million dollars per year. In 1999 the International Intellectual Property Alliance filed a petition requesting a review of the Dominican Republic's eligibility for benefits under the Generalized System of Preferences due to continued copyright violations. In August 2000 the Mejia government passed a new copyright law that most observers believe to be TRIPS compliant.

8. Worker Rights

a. *The Right of Association:* The Constitution provides for the freedom of workers in all sectors (except the military and police) to organize labor unions and for the right of workers to strike (and for private sector employers to lock out workers). Workers in all sectors exercise these rights. Organized labor represents little more than 10 percent of the work force and is divided among three major confederations and a number of independent unions. The government generally respects association rights and places no obstacles to union registration, affiliation or the ability to engage in legal strikes.

b. *The Right to Organize and Bargain Collectively:* Collective bargaining is lawful and may take place in firms in which a union has gained the support of an absolute majority of the workers. Only a minority of companies has collective bargaining pacts. The Labor Code stipulates that workers cannot be dismissed because of their trade union membership or activities. In practice, however, workers are sometimes fired because of their union activities.

c. *Prohibition of Forced or Compulsory Labor:* Although the law prohibits all forms of forced or compulsory labor, such practices still exist to a limited extent. There have been several reports of coerced overtime in factories and of workers being fired for refusing to work overtime. Union officials state that newly hired workers are not informed that overtime is optional.

d. *Minimum Age for Employment of Children:* The Labor Code prohibits employment of children under 14 years of age and places restrictions on the employment of children under the age of 16. These restrictions include limiting the daily number of working hours to six, prohibiting employment in dangerous occupations or in establishments serving alcohol and limiting nighttime work. Dominican law requires eight years of formal education. The high level of unemployment and lack of a social safety net create pressures on families to allow or encourage children to earn supplemental income. Tens of thousands of children begin working before the age of 14, primarily in the informal economy, small businesses, clandestine factories, and prostitution. The Ministry of Labor, in collaboration with the International Labor Organization's Program on the Eradication of Child Labor and the U.S. Department of Labor, has implemented programs to combat child labor.

e. *Acceptable Conditions of Work:* The constitution empowers the Executive Branch to set minimum wage levels, and the Labor Code assigns this task to a national salary committee. Congress also may enact minimum wage legislation. The Labor Code establishes a standard work period of eight hours per day and 44 hours per week. The Code also stipulates that all workers are entitled to 36 hours of uninterrupted rest each week. In practice, a typical workweek is Monday through Friday plus a half day on Saturday. The Code grants workers a 35 percent differential for work totaling between 44 and 68 hours per week, and double time for any hours above 68 per week. The Dominican Social Security Institute (IDSS) sets workplace safety and health conditions. The existing social security system is seriously underfunded and applies to only about nine percent of the population. Conditions for agricultural workers, especially in the sugar industry, are in general much worse than in other sectors.

f. *Rights in Sectors with U.S. Investments:* The Labor Code applies in the more than 40 established FTZs. The FTZ companies, over sixty percent of which are U.S.-owned or associated, employ approximately 200,000 workers, mostly women. Some FTZ companies have been accused of discharging workers who attempt to organize unions, but these allegations have primarily been made against non-U.S. companies. Some companies in the FTZs adhere to significantly higher worker safety and health standards than do non-FTZ companies. In other categories of worker rights, conditions in sectors with U.S. investment do not differ significantly from conditions in sectors lacking U.S. investment.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		156
Total Manufacturing		470
Food and Kindred Products	26	
Chemicals and Allied Products	26	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	419	
Wholesale Trade		29
Banking		71
Finance/Insurance/Real Estate		([1])
Services		20
Other Industries		205
TOTAL ALL INDUSTRIES		952

([1]) Less than $500,000 (+/–).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

ECUADOR

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP	19.7	13.3	13.5
Real GDP Growth (pct)	0.4	–8.0	1.9
GDP by Sector:			
Agriculture, Fishing	–1.4	2.7	–0.7
Petroleum, Mining	–3.3	–1.4	8.6
Manufacturing	0.4	–9.2	1.5
Commerce, Hotels	0.9	–11.3	2.3
Finance, Business Services	1.9	3.5	1.1
Government, Other Services	1.2	–11.9	–8.3
Per Capita GDP (US$)	1,619	1,164	915
Labor Force (estimate - 000s)	3,441	3,880	3,900
Urban Unemployment (pct)	11.5	16.9	13.2
Money and Prices (annual percentage growth):			
Money Supply (M2) [2]	43.0	N/A	N/A
Consumer Price Inflation [2]	45.0	60.0	77.0
Exchange Rate (Sucres/US$ annual average)			
Central Bank	5,442	11,165	N/A
Market	5,445	11,182	N/A
Balance of Payments and Trade:			
Total Exports FOB [3]	4.2	2.8	4.7
Exports to United States [3]	1.7	1.1	1.5
Total Imports CIF [3]	5.2	1.7	2.4
Imports from United States [3]	1.7	0.6	0.8
Trade Balance [3]	–1.0	1.1	2.3
Balance with United States [3]	0.0	0.5	0.7
External Public Debt	13.3	13.6	15.7
Debt Service Payments/GDP (pct)	22.4	21.0	33.4
Current Account Deficit/GDP (pct)	–11.0	2.6	17
Fiscal Balance/GDP (pct)	–5.9	–6.0	–3.9
Gold and Foreign Exchange Reserves	1.7	1.3	N/A
Aid from United States (FY–US$ millions)	12.5	16.4	16.8
Aid from Other Sources (US$ millions)	N/A	N/A	N/A

[1] 2000 GDP figures are Central Bank of Ecuador estimates as of October 2000.
[2] Ecuador adopted the U.S. dollar as its official currency in January 2000. 2000 inflation figure year-to-date through September 2000.
[3] All 2000 figures based on IMF estimates.

Source: Central Bank of Ecuador and IMF data.

1. General Policy Framework

The Ecuadorian economy is based on petroleum production and exports of bananas, shrimp and other primary agricultural products. Industry is largely oriented to servicing the domestic market but is becoming more export-oriented. Deteriorating economic performance in 1997–1998 culminated in a severe economic and financial crisis in 1999. The crisis was precipitated by a number of external shocks, including the El Nino weather phenomenon in 1997, a sharp drop in global oil prices in 1997–1998, and international emerging market instability in 1997–1998. These factors highlighted the Government of Ecuador's unsustainable economic policy mix of large fiscal deficits and expansionary money policy and resulted in an 8 percent contraction of GDP, annual year-on-year inflation of 60 percent and a 65 percent devaluation of the national currency in 1999.

On January 9, 2000 the Administration of President Jamil Mahuad announced its intention to adopt the U.S. dollar as the official currency of Ecuador to address the ongoing economic crisis. Subsequent protest led to the removal of Mahuad from office and the elevation of Vice President Gustavo Noboa to the Presidency.

The Noboa government confirmed its commitment to dollarize as the centerpiece of its economic recovery strategy. The government also entered into negotiations with the International Monetary Fund (IMF), culminating in the negotiation of a 12-month Stand-by Arrangement with the Fund. Additional policy initiatives include efforts to reduce the government's fiscal deficit, implement structural reforms to strengthen the banking system and regain access to private capital markets.

The government has introduced measures that have resulted in a sharp shift in its fiscal balance from a deficit of 1.2 percent of GDP in 1998 to a primary surplus of 4 percent in 1999. However, the overall deficit remained at six percent of GDP in 1999, due mainly to the rising cost of debt service following the devaluation of the sucre and bond issues to fund financial sector recapitalization. Fiscal performance in 2000 to date has been better than expected, due largely to increasing oil prices and improved revenue collections.

2. Exchange Rate Policy

Up until February of 1999, the Central Bank maintained a crawling peg exchange rate system. At that time, continued pressure on the currency led the Central Bank to abandon its crawling peg and float the sucre. Continued expansionary monetary policy resulted in year-on-year devaluation of 65 percent.

In March 1999 the Ecuadorian Congress codified dollarization with the approval of the "Law of Economic Transformation." Among other things, the law declared the U.S. dollar as the legal tender of Ecuador and directed the central bank to cease issuing sucres except for coins in denominations not exceeding one dollar. The law mandates that all currency in circulation, bankers' deposits at the central bank, and sucre-denominated central bank stabilization bonds be fully backed by freely disposable international reserves.

The legislation envisaged a six-month window for holders of sucres to exchange their liabilities into dollars at the rate of 1 dollar to 25,000 sucres. Despite a few bumps along the way, the transition to dollarization proceeded relatively smoothly and on September 10, 2000, the sucre ceased to be legal tender in Ecuador. Inflation has begun to slow but still remains high as the residual effects of dollarization work their way through the system. Year-to-date inflation was 77.7 percent for the first nine months of 2000.

3. Structural Policies

The current government's economic program contains an ambitious structural reform component. Ecuador has committed to undertake reforms to liberalize its labor market, increase investment (including by private firms) in the oil sector, and to increase private sector participation in the electricity and telecommunication sectors. Other structural reform measures focus on the need to reduce fuel subsidies and better target poverty assistance to the most needy. Future reform efforts will address the need to revise the tax structure to increase revenue, diversify the tax base away from oil revenue and increase the efficiency of the tax service. However, progress on structural reforms has proceeded very slowly.

4. Debt Management Policies

In August 1999 the Government of Ecuador announced that it could no longer afford to service its debt and that it would not meet a payment on its Discount Brady Bonds, making Ecuador the first country to default on Brady Bonds. In October 1999 Ecuador also failed to meet a coupon payment on its Eurobonds. By end-1999 external payment arrears were $925 million, of which 75 percent was owed to Paris Club creditors. The total stock of debt at end-1999 stood at $16.1 billion (120 percent of GDP).

Ecuador negotiated a reorganization of its Brady Bonds and euro obligations in August 2000. The agreement involved the swap of $3.49 billion in euro and Brady Bond obligations for $3.95 billion in new debt, issued in two tranches maturing in 2012 and 2030.

In September 2000 Ecuador finalized a debt restructuring agreement with the Paris Club on debts due through April 30, 2001. The deal allowed Ecuador to consolidate $880 million in arrears, with a view toward further rescheduling on debts coming due after April 30, 2001. The deal was concluded on so-called "Houston terms", with debts being subject to repayment over periods ranging from 18 to 20 years, with grace periods ranging from 3 to 10 years, depending on the type of debt.

5. Significant Barriers to U.S. Exports

Ecuadorian trade policy was substantially liberalized during the early 1990s, resulting in a reduction in tariffs, elimination of many nontariff surcharges, and enactment of an in-bond processing industry (maquila) law. Ecuador joined the Andean Pact in 1995 and the World Trade Organization (WTO) in 1996.

Upon accession to the WTO, Ecuador set most of its tariff rates at 30 percent or less. The current average applied tariff rate is around 13 percent ad valorem. Ecuador subscribes to the Andean Community's common external tariff (CET), which has a four-tiered structure: 5 percent for most raw materials and capital goods; 10–15 percent for most intermediate goods, and 20 percent for most consumer goods. Through Tariff Rate Quotas (TRQs), Ecuador agreed to provide market access at non-restrictive tariff rates, while providing a measure of protection for politically sensitive commodities.

As an emergency fiscal measure, the Government of Ecuador imposed a temporary import surcharge of two to five percent in March 1998. The surcharge was raised to 2 to 10 percent in February 1999, in response to the government's worsening budget situation. The tax is applied in a non-discriminatory manner to all imports.

Customs procedures can be difficult but are not generally used to discriminate against U.S. products. The government has yet to implement its commitment not to use sanitary and phytosanitary restrictions to block the entry of certain imports. Import bans on used clothing, used cars and used tires have yet to be eliminated, despite Ecuador's promise in its WTO accession protocol to do so by July 1996. Recently proposed legislation would lift the ban on the import of used cars, but has yet to be passed into law.

In September 2000 the Andean Community trade ministers approved Decision 486, which will enter into force on December 1, 2000 and will replace Decision 344 as the Andean Community's Common Industrial Property Regime. Decision 486 is a notable improvement over Decision 344 in bringing the region's IPR regime into conformance with WTO standards. However, Decision 486 appears to have shortcomings with respect to protection of data confidentiality and protection for second use patents.

8. Worker Rights

a. *The Right of Association:* Under the Ecuadorian Constitution and Labor Code, most workers in the parastatal sector and private companies enjoy the right to form trade unions. Public sector workers in non-revenue earning entities, as well as security workers and military officials, are not allowed to form trade unions. Less than 12 percent of the labor force, mostly skilled workers in parastatal and medium-to-large-sized industries, is unionized. Except for some public servants and workers in some parastatals, workers by law have the right to strike. Sit-down strikes are allowed, but there are restrictions on solidarity strikes. Ecuador does not have a high level of labor unrest. Most strike activity involves public sector employees.

b. *The Right to Organize and Bargain Collectively:* Private employers with more than 30 workers belonging to a union are required to engage in collective bargaining when requested by the union. The labor code prohibits discrimination against unions and requires that employers provide space for union activities. The Labor Code provides for the resolution of conflicts through a tripartite arbitration and conciliation board process. Employers are not permitted to dismiss permanent workers without the express permission of the Ministry of Labor. The in-bond (maquila) law permits the hiring of temporary workers in maquila industries, effectively limiting unionization in the sector.

c. *Prohibition of Forced or Compulsory Labor:* Compulsory labor is prohibited by both the constitution and the Labor Code and is not practiced.

d. *Minimum Age for Employment of Children:* Persons less than 14 years old are prohibited by law from working, except in special circumstances such as apprenticeships. Those between the ages of 14 and 18 are required to have the permission of their parents or guardian to work. In practice, many rural children begin working as farm laborers at about 10 years of age, while poor urban children under age 14 often work for their families in the informal sector.

e. *Acceptable Conditions of Work:* The Labor Code provides for a 40-hour work week, two weeks of annual vacation, a minimum wage and other variable, employer-provided benefits such as uniforms and training activities. The minimum wage is set by the Ministry of Labor every six months and can be adjusted by Congress. Mandated bonuses bring total monthly compensation to about $110 (or fifty cents per hour for contract workers). The Ministry of Labor also sets specific minimum wages by job and industry so that vast majority of organized workers in state industries and large private sector enterprises earn substantially more than the general minimum wage. The Labor Code also provides for general protection of workers' health and safety on the job and occupational health and safety is not a major problem in the formal sector. However, there are no enforced safety rules in the agricultural and informal mining sectors. Recent economic reform legislation eased restrictions on the hiring of temporary and contract workers in order to improve the flexibility of the Ecuadorian labor market. However, such workers do not receive the same benefits as full-time employees.

f. *Worker Rights in Sectors with U.S. Investment:* Economic sectors with U.S. investment include petroleum, telecommunications, chemicals and related products, and food and related products. U.S. investors in these sectors are primarily large multinational companies that abide by the Ecuadorian Labor Code. U.S. workers are subject to the same rules and regulations on labor and employment practices governing basic worker rights as Ecuadorian companies.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		639
Total Manufacturing		285
Food and Kindred Products	76	
Chemicals and Allied Products	94	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999—Continued

[Millions of U.S. Dollars]

Category	Amount	
Primary and Fabricated Metals	–1	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	([2])	
Transportation Equipment	37	
Other Manufacturing	78	
Wholesale Trade		66
Banking		([1])
Finance/Insurance/Real Estate		123
Services		4
Other Industries		([1])
TOTAL ALL INDUSTRIES		1,202

([1]) Suppressed to avoid disclosing data of individual companies.
([2]) Less than $500,000 (+/–).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

EL SALVADOR

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP	11,974.01	12,389.0	13,120.0
Real GDP Growth (pct)	3.5	2.6	3.0
GDP By Sector			
Agriculture	1,432.2	1,475.0	1,615.0
Manufacturing	2,629.4	2,760.0	2,940.0
Services	6,878.0	7,290.0	7,620.0
Government	800.0	848.0	875.0
Per Capita GDP (USD) [2]	1,985.0	2,013.0	2,130.0
Labor Force (thou) [3]	2,305.0	2,350.0	2,395.0
Unemployment Rate (pct) [4]	8.0	8.0	7.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	12.0	9.0	8.0
Consumer Price Index	4.2	–1.0	5.0
Exchange Rate (Colon/US$)	8.75	8.75	8.75
Balance of Payments and Trade:			
Total Exports (FOB) [5]	2,452.0	2,500.0	3,100.0
Exports to United States [5]	1,454.0	1,597.0	1,740.0
Total Imports CIF [5]	3,965.0	4,084.0	4,450.0
Imports from the United States [5]	2,028.0	2,112.0	2,300.0
Trade Balance	–1,510.0	–1,584.0	–1,350.0
Balance with United States	–574.0	–515.0	–560.0
External Public Debt	2,632.0	2,810.0	2,910.0
Fiscal Deficit/GDP (pct)	2.0	2.5	2.7
Curr Acc Deficit/GDP (pct)	0.7	–0.9	–1.3
Debt Serv Paym/GDP (pct	3.0	3.0	3.0
Gold and Foreign Exchange Reserves	1,765.0	1,969.0	2,045.0
Aid from the United States	38.0	56.8	34.9
Aid from All Other Sources [6]	38.0	38.0	46.0

[1] 2000 figures are Central Bank estimates based on August data.
[2] Per capita growth based on 1992 census data.
[3] Economically Active Population, i.e. all those over age 15.
[4] Figures do not include underemployment.
[5] Including gross maquila.

[6] Grants only; figures do not reflect NGO assistance and bilateral loan programs.

1. General Policy Framework

In 1999, El Salvador's economy grew by 2.6 percent, compared to the 3.5 percent growth posted in 1998. Growth weakened in 1999, spurred by poor international prices for El Salvador's principal export commodities, weak exports to other Central American countries recovering from Hurricane Mitch, and an investment slow-down caused by the March 1999 elections. In late November 2000 the Government of El Salvador announced two important economic revitalization initiatives: introduction of the U.S. dollar as a legal currency concurrent with the Salvadoran colon, and a $914 million national infrastructure development program.

2000—Economy's Modest Performance

Data from the first semester of 2000 shows a modest performance for the economy. During the first quarter of 2000, the economy grew at 2.2 percent, up from 1.3 percent in the last quarter of 1999. The second quarter of 2000 reports a 2.5 percent growth; however, the outlook for the upcoming months of 2000 suggests that serious efforts are needed to attain the Salvadoran government's 3 to 4 percent annual growth rate target for 2000. Positive signs are a good performance so far in maquila exports, a trend of lowering interest rates that should stimulate private investment, and increasing family remittances from Salvadorans working in the United States, which should increase aggregate demand. Though a little behind schedule, the government's execution of a moderately ambitious public investment program (including paving 200 miles of rural roads and rebuilding important stretches of the Panamerican highway) should also prop up aggregate demand. The government and business community expect the new Caribbean Basin Trade Partnership Act (CBTPA) trade preferences and pending ratification of a Free Trade Agreement with Mexico to create 75,000 to 150,000 jobs, mostly in the maquila sector. However, worrying factors such as high petroleum prices, higher electricity prices, the application of the Value Added Tax (VAT) to basic foods and medicines since April 2000, and a continuing high crime rate are an ongoing drag on investment and growth.

Sectoral Performance

The modest growth trend in 2000 has been led by agriculture (bouncing back from years of depression and the Mitch disaster), the finance sector, and maquila exports. Other sectors such as commerce, construction, and industry, are showing little or no growth.

During the first semester of 2000, exports grew 18.7 percent in value compared to the same period in 1999, reaching $1.51 billion. Of these, maquila products alone grew by 23 percent, followed by coffee, which grew by 18 percent. Imports increased by 14 percent from January-June 2000, compared to the same period in 1999, with the trade deficit staying at a relatively high level. As in the past, family remittances continue to play a key role in offsetting the deficit. From January through July 2000, remittances reached $817 million, an eight percent increase over the same period a year ago.

Fiscal Developments

On the fiscal side, Salvadoran government tax revenues reached $886 million from January to June 2000, a six percent increase over the same period in 1999. Tax revenues to June 2000 are some two points below the programmed government revenues for the period, and tax collection rates remain among the lowest in Latin America. According to government authorities, petroleum, VAT and electricity price hikes caused inflation to rise to five percent.

The official outlook for 2001 is for continued macroeconomic stability. The Central Bank continued its conservative monetary policy in 2000. The money supply is expected to expand by eight percent in 2000, compared to nine percent in 1999. Interest rates on loans with maturities of less than a year decreased to 14.5 percent by mid 2000, compared to 18.5 percent two years ago. Medium and long-term interest rates also went down from 20 to 16.6 percent in the same period.

In 1998 the government successfully privatized the state telephone company, the electricity distribution companies and pension funds. In 1999 the government successfully auctioned the thermal power plants and plans to sell its remaining shares in the telephone company. The 2000 $2.1 billion central government budget continued to shift spending from military to social investments, with about one third of the central budget dedicated to social development including health, education and public works. The 2000 budget is likely to result in a fiscal deficit estimated at 2.7 percent of GDP, compared to 2.5 percent in 1999. The deficit has been financed with official domestic and external bonds. By law, the Central Bank is not allowed to finance government deficits. The 2001 projected deficit is expected to increase by four percent over the 2000 budget.

2. Exchange Rate Policy

The colon has been informally pegged at 8.75 per dollar since 1994. Large inflows of dollars from Salvadorans working in the United States offset a significant trade deficit ($1.66 billion are expected to enter the Salvadoran economy in 2000). At the end of June 2000, net international reserves at the Central Bank were $1.9 billion, one of the highest levels in history. In late November 2000 the Government of El Salvador introduced monetary integration legislation that would introduce the dollar as a legal currency fixed at 8.75 colons to the dollar, require bank accounts to convert depositors' colon-denominated accounts to dollar-denominated accounts, and require the dollar be used as the financial system's accounting unit. Businesses would be free to sign contracts denominated in dollars, colons, and other major currencies. The government plans to have the legislation passed in December 2000, authorizing the introduction of the dollar on January 1, 2001.

3. Structural Policies

The United States is El Salvador's main trade partner. Imports from the United States have increased an average of 16 percent per year since 1993. Imports from the United States, which constitute from 55 to 60 percent of all El Salvador's imports, are projected to reach $2.3 billion in 2000, up from $2.1 billion in 1999. Key to this trend is the multi-year program (whose last phase concluded in July 1999) to radically lower tariff barriers. Under this program, tariffs for most capital goods and raw materials have been reduced to zero or one percent, and tariffs on intermediate and final goods have been reduced to a maximum rate of 15 percent. El Salvador's 1998 environmental law is providing new opportunities for exports of U.S. clean technology. Salvadorans' familiarity with U.S. products has helped fuel the U.S. export boom.

Customs Procedures: In September 1997 the government launched a new, simplified customs procedure system which reduces the former cumbersome 20 step import process to seven steps. A second stage of this customs modernization program, consisting of processing import/export papers via computer/satellite from the user's office, was implemented in November 1998, and a final stage to facilitate electronic payment of import duties was launched in February 1999. Close to 80 percent of all Salvadoran imports consist of capital and intermediate products. The government has an open procurement policy in practice, upgraded and made more transparent with recent approval of a new modern government procurement law. U.S. companies compete actively for contracts.

Privatization: El Salvador has liberal legislation under which it has privatized the state owned telephone company (ANTEL), four electricity distribution and two thermal generating companies, and pension funds. All of these projects represent good opportunities for U.S. suppliers and investors.

Price Policies: Prices, with the exception of bus fares and utilities, which are moving toward market prices, are unregulated. While fuel prices are not regulated, commercial margins on gasoline and diesel fuel are set by regulation at the import level and by the terms of an agreement between the government and the oil industry at the wholesale level. A commission to monitor the telecommunications and electric sectors (SIGET) has been established.

The 13 percent value-added tax (VAT) is applied to all goods and services, domestic and imported, with no exception (basic grains, dairy products, fruits, vegetables and medicines, which used to be exempt from the VAT, were incorporated in April 2000). In September 1999 the VAT and income tax laws were reformed to expand the country's taxable base and increase government revenues. The government policy on basic grain tariffs (applied to imports from countries outside the Central American Common Market) is set by seasonal supply and demand conditions in the local market. Last April, the Salvadoran government announced a new sectoral policy to provide agriculture incentives, based on high protective tariffs. Under this new scheme, white and yellow corn are charged 20 percent ad valorem duty; paddy and milled rice, 40 percent; fluid milk and dairy products, 40 percent; sorghum, 40 percent; fruits and vegetables, 30 percent; pork, 40 percent; and beef, 30 percent.

4. Debt Management Policies

El Salvador has traditionally pursued a conservative debt policy. External debt stood at $2.81 billion at December 1999, a 6.8 percent increase over the previous year. Almost 70 percent of this debt has been contracted with international financial institutions, and 30 percent with bilateral organizations and other sources. The debt service in 2000 amounted to $341 million, or 2.6 percent of the projected GDP. El Salvador's prudent debt policies have been recognized by improved risk ratings on its official debt instruments by organizations such as Moody's and Standard and Poor's.

El Salvador has succeeded in obtaining significant new credits from diverse international sources over the last three years. Some $300 million has been contracted from international institutions and governments (Spain, Germany, Japan) for infrastructure works and social programs to be undertaken over the next few years. In August 1999 El Salvador successfully placed $150 million in Euro-Bonds. The debt profile is expected to increase over the next several years as the international donor community has pledged $1.26 billion to finance El Salvador's reconstruction and modernization. In early October the Finance Minister announced plans to consolidate and refinance outstanding government debt. El Salvador's financing from the international community is a combination of both loans and donations; over the last six years, 80 percent of total government financing has been through low interest loans from IDB and the World Bank. El Salvador's conservative fiscal policy provides strong assurances that debt service will stay below three percent of GDP.

5. Aid

Aid grants from the United States totaled $57.7 million in 1999. Bilateral military assistance (international military and educational training) from the United States totaled $500,000 in 1999 and $538,000 in 2000.

6. Significant Barriers to U.S. Exports

There are no legal barriers to U.S. exports of manufactured goods or bulk, non-agricultural products to El Salvador. Most U.S. goods face tariffs from zero to 15 percent. The range by category is zero to 5 percent for capital goods, 5 to 10 percent for intermediate products, and up to 15 percent for final goods. Higher tariffs are applied to automobiles, alcoholic beverages, textiles and some luxury items, but the Salvadoran government also plans to gradually reduce these tariffs in the near future.

Generally, standards have not been a barrier for the importation of U.S. consumer-ready food products. Poultry is the notable exception; since 1992, the government has imposed a zero tolerance requirement for several common avian diseases such as salmonella, effectively blocking all imports of U.S. poultry. The Ministry of Agriculture (MAG) requires a salmonella-free certificate showing that the product has been approved by U.S. health authorities for public sale. Importers may also be required to deliver samples for laboratory testing, but this requirement has not been enforced. However, lately MAG is requesting plant inspections at origin to allow imports of various food products into the local market. The cost for this procedure has to be paid by the exporter or the local agent/distributor. All fresh food, agricultural commodities and live animals must be accompanied by a sanitary certificate. Basic grains and dairy products also must have import licenses. Authorities have not enforced the Spanish language labeling requirement.

El Salvador is a member of the WTO and has implemented most of its Uruguay Round commitments on schedule. The government is an active participant in the Summit of the Americas/Free Trade of the Americas process. The country is a member of the Central American Common Market, and together with Guatemala and Honduras, signed in May 2000 a Free Trade Agreement with Mexico. A Free Trade Agreement was also signed with the Dominican Republic in 1998, and currently negotiations are under way to sign a Free Trade Treaty with Chile.

El Salvador officially promotes foreign investment in virtually all sectors of the economy. Foreign investment laws allow unlimited remittance of net profits, except for some services (hotels, restaurants, etc.) where the law allows 50 percent. No restrictions exist on establishing foreign banks or branches of foreign banks in El Salvador. Recently, the Legislative Assembly approved a more open and modern Investment Promotion Law, a new Banking Law and a New Government Procurement Law.

7. Export Subsidies Policies

El Salvador does not employ direct export subsidies. It offers a six percent rebate to exporters of non-traditional goods based on the FOB value of the export, but some exporters have found it difficult to collect. Free trade zone operations are not eligible for the rebate but enjoy a 10-year exemption from income tax as well as duty-free import privileges.

8. Protection of U.S. Intellectual Property

El Salvador belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO), and is a signatory to the Paris Convention, Bern Convention, Rome Convention, Phonograms Convention, and The Nairobi Treaty. El Salvador's IPR Laws are among the most progressive in the region, and while some problems still need to be addressed, the Attorney General's IPR Enforcement Unit and National Registration Center have been vigilant in addressing IPR violations. A September 2000 USTR Watch List review of El Salvador determined that El Salvador should not be put on the list but requested continuing progress on IPR TRIPS compliance and workers' rights issues.

In 1999 and 2000 the Intellectual Property Office of the Attorney General's Office took strong enforcement measures against IPR violators in a number of areas including videos and music cassettes, medicines, books and clothing. Starting in 1999, officials began raids on software pirates.

El Salvador's current Law Protecting Intellectual Property Rights took effect in October 1994. This law, along with El Salvador's acceptance of TRIPS disciplines, addresses several weak areas. Patent terms were extended to 20 years, and the definition of patentability was broadened. Compulsory licensing applies only in cases of a national emergency. Computer software is protected, as are trade secrets. The Salvadoran government is drafting legal changes to make its IPR laws TRIPS compliant, as required by the January 2000 TRIPS deadline. These IPR legal changes are expected to be enacted by early 2001.

Trademarks are still regulated by the Central American Convention for the Protection of Industrial Property, but the Salvadoran government is preparing draft trademark and copyright legislation for presentation to the National Assembly in October 2000. It is an occasional practice to license a famous trademark and then seek to profit by selling it when the legitimate owner wants to do business in El Salvador. In November 1994, El Salvador signed an amended version of the Convention, which, among other things, would address this issue. The revised Convention will take effect upon ratification by three of the participating Central American governments. According to government officials, they are working on a draft for a separate semiconductor chip law.

With international funding, the government is completing a comprehensive reorganization of its antiquated National Registry Office. The registration process has been simplified and computerized and significant progress is being made in reducing backlogs and adjudicating disputes. The Business Software Alliance has had mixed results in its campaign to eradicate pirated software but has received increasing cooperation from Salvadoran government officials and legal authorities.

9. Worker Rights

a. *The Right of Association:* The constitution prohibits the government from engaging in antiunion actions against workers trying to organize. Unions and strikes are legal only in the private sector. Employees of autonomous public agencies may form unions but not strike. Nevertheless, many workers, including those in the public sector, form employee associations that carry out strikes that, while technically illegal, are accorded the same treatment as strikes by other unions.

b. *The Right to Organize and Bargain Collectively:* The constitution guarantees the right of workers and employers to form unions or associations. El Salvador has a small, organized labor sector with approximately 150 active unions, public employee associations, and peasant organizations, representing over 300,000 citizens, or 20 percent of the total work force. The constitution and the Labor Code provide for collective bargaining rights, but only to employees in the private sector and in autonomous government agencies. In fact, both private sector unions (by law) and public sector employee associations (in practice) use collective bargaining.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced or compulsory labor, except in the case of calamity and other instances specified by law. This provision is followed in practice.

d. *Minimum Age for Employment of Children:* The constitution prohibits the employment of children under the age of fourteen. Minors fourteen or older may receive special Labor Ministry permission to work, but only where such employment is indispensable to the sustenance of the minor and his family. Child labor is not found in the industrial sector. Legal workers under the age of eighteen have special additional rules governing conditions of work.

e. *Acceptable Conditions of Work:* The minimum wage is $4.80 (42 colones) per day, for commercial, industrial, and service employees. For agricultural workers, it is $2.47 plus a food allowance per day. Minimum wage for workers at coffee mills is $3.56 and for sugar mill is $2.60. The law limits the workday to six hours for youths between fourteen and eighteen years of age and eight hours for adults, and it mandates premium pay for longer hours. The Labor Code sets a maximum normal workweek of 36 hours for youths and 44 hours for adults.

f. *Rights in Sectors with U.S. Investment:* U.S. investment in El Salvador has increased in recent years, especially in the energy and financial sectors. The Labor Laws apply equally to all sectors, including the so-called "maquilas" (assembly or processing plants) in Free Trade Zones (FTZ). Most FTZ companies have accepted codes of conduct from their parent corporations or U.S. purchasers. These codes include worker rights protection clauses. The great majority of workers in the FTZs receive better salaries and working conditions than are offered elsewhere in the private sector. Nevertheless, there were credible reports of factories dismissing union organizers.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		([1])
Total Manufacturing		150
Food and Kindred Products	11	
Chemicals and Allied Products	25	
Primary and Fabricated Metals	8	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	([1])	
Transportation Equipment	0	
Other Manufacturing	([1])	
Wholesale Trade		25
Banking		([1])
Finance/Insurance/Real Estate		([1])
Services		9
Other Industries		106
TOTAL ALL INDUSTRIES		722

([1]) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

GUATEMALA

Key Economic Indicators [1]

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000
Income, Production and Employment:			
Nominal GDP [2]	19,016	18,272	18,895
Real GDP Growth (pct)	4.7	3.6	3.6
GDP by Sector (pct):			
Agriculture	24	23	23
Manufacturing	21	21	21
Services	47	47	47
Government	8	8	8
Per Capita GDP (US$) [2]	1,793	1,635	1,636
Labor Force (000s) [3]	3,416	4,208	4,317
Unemployment Rate (pct) [4]	5.9	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	14.4	10.0	14.0
Consumer Price Inflation [5]	7.4	4.92	5.0
Exchange Rate (Quetzal/US$ annual average)			
Financial Market Rate (2000 data is Unofficial Embassy estimate)	6.40	7.40	7.80
Balance of Payments and Trade:			
Total Exports FOB [6]	2,562	2,493	2,642
Exports to United States	837	838	947
Total Imports CIF [6]	4,651	4,560	4,678
Imports from United States	1,931	1,851	2,036
Trade Balance [6]	–2,089	–2,067	–2,036
Balance with United States [6]	–1,094	–1,013	–1,089
External Public Debt [7]	2,368	2,600	2,700

Key Economic Indicators [1]—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000
Fiscal Deficit/GDP (pct) [7]	2.9	2.8	2.3
Current Account Deficit/GDP (pct) [7]	5.2	5.5	3.9
Debt Service Payments/GDP (pct) [7]	1.6	1.8	2.2
Gold and Foreign Exchange Reserves (Millions Net) [7]	1,400	1,100	1,800
Aid from United States	65	102	60
Aid from Other Sources	N/A	N/A	N/A

[1] 2000 figures are all estimates based on available data in October.
[2] GDP expressed in millions of U.S. Dollars.
[3] 1999 Labor Force Data from 1999 Survey of Family Income and Expenditures.
[4] Does not reflect estimated 40 to 50 percent underemployment.
[5] The official CPI is not regarded as an accurate measure of price movements
[6] Merchandise trade data from Guatemalan customs and central bank. Trade data does not include approximately $250 million in value added by the apparel assembly industry. U.S. government data for U.S. imports from Guatemala were $2,265 million in 1999 and $2,072 million in 1998.
[7] Data from the Guatemalan government's preliminary 2001 budget projection and Guatemala's Central Bank.

1. General Policy Framework

Following the signing of the 1996 Peace Accords, which ended a 36-year armed internal conflict, Guatemala has experienced a resurgence of civic participation culminating in the creation of a Fiscal Pact, which was sent to congress in July. The Fiscal Pact was designed to bring together various sectors to develop tax and other proposals that would help the government increase revenues from 8 percent of GDP to 12 percent, and therefore, to ensure implementation of social reforms promised in the Peace Accords. The Guatemalan government has not accepted the recommendations of the Fiscal Pact, specifically rejecting a proposed increase in the value-added tax. Since assuming office in January 2000, the Portillo administration has made efforts to improve the tax collection system, whose reform is essential to national progress and development. Among the government's remaining challenges, however, are the need to address the fiscal deficit, the elimination of bureaucratic inefficiency as well as private and government corruption, development of physical infrastructure and human capital, improvement in internal security and justice, and designing policies that promote sustained macroeconomic stability.

Guatemala's economy, the largest in Central America, is generally open, though the lack of transparency and bureaucratic complexity often make it difficult for foreigners to compete on equal footing. For the last three years, real GDP growth has averaged about 4 percent and population growth about 2.9 percent annually. Security concerns, as well as insufficient investment in education, health care, telecommunications, and transportation constrain the more rapid development of Guatemala's economy. The telecommunications sector and key elements of the electricity industry have been privatized and the government has awarded concessions for the operation of the railroad and the postal service. Recent actions by the government to investigate the legality of contracts signed by the previous administration have cast a shadow over the investment climate. Guatemala has been a member of the WTO since 1995.

Agriculture and commerce are the dominant economic activities. Agriculture accounts for two thirds of exports and about 40 percent of all employment, though there is much underemployment in all sectors. Activity in the agricultural sector is concentrated in production of the traditional products of coffee, sugar, and bananas. Dramatic declines in world prices for coffee have adversely affected the economy. Non-traditional agricultural exports, e.g., specialty vegetables and fruits, berries, shrimp, and ornamental plants and flowers, account for an increasing share of export revenues. Other non-traditional industries that have experienced recent growth and have favorable prospects are apparel assembly for export and tourism. The textile sector expects significant increases in its exports to the United States as a result of enhanced benefits it will receive under the Caribbean Basin Initiative. Remittances from abroad, which the Guatemalan government estimates at between $450–500 million per year, are a significant source of foreign exchange.

Though tax revenues have historically been less than 8 percent of GDP, the government is committed to increasing tax revenues to 12 percent of GDP by 2002 in order to fund social and economic development projects as set forth in the Peace Accords. Tax revenues in 2000 are expected to be 9.8 percent of GDP. Beginning in 1994, the central bank (Bank of Guatemala) was prohibited from financing the government's budget deficit, forcing the government to issue treasury bonds, most of which were short-term. In 1996 the government began issuing securities for longer terms (up to 5 and 10 years), including several dollar-denominated issues placed on the international market at lower rates of interest than offered on local currency denominated bonds.

In 1999 the Guatemalan currency experienced strong downward pressure in the foreign exchange market, leading the central bank to issue short-term notes to absorb excess liquidity and reduce consumption demand. Though the central bank achieved macroeconomic stability in 2000, having curtailed capital flight and controlled inflation, high commercial bank lending rates continue to discourage productive investment and retarding growth. Furthermore, the high volume of open market operations implies a large future cost to the central bank and has raised the question of whether the central bank can continue to maintain a relatively permissive monetary policy in the face of continued fiscal debt. Several placements of dollar-denominated government securities were issued in 1999 to finance part of the budget deficit, however the deficit remains problematic. Despite increased reliance upon dollar-denominated instruments that carry lower coupon rates than notes denominated in local currency, debt service costs will increase in 2001 as a result of both higher debt and the depreciation of the local currency.

2. Exchange Rate Policy

Guatemala's trade deficit and capital flight in 1999 put pressure on the foreign exchange market. Though Guatemala sold an additional $400 million in foreign reserves in 1999, the local currency still depreciated by approximately 13 percent. By issuing short-term notes to absorb the excess liquidity, the Central Bank stabilized the exchange rate in the first half of 2000, while simultaneously managing to raise foreign reserves to approximately $1.8 billion. Access to foreign exchange is unrestricted and there are no reports of foreign exchange shortages.

Though the government passed legislation in 1998 to permit banks and financial institutions to offer dollar-denominated accounts, enabling regulations have not been issued. A number of local banks currently offer dollar denominated accounts in which the funds are actually held in offshore accounts.

3. Structural Policies

As part of the Peace Process, the government is committed to increasing spending on social welfare programs, infrastructure expansion, and economic development programs. Though much of the financing for this additional spending will come from grants and loans provided by the international donor community, Guatemala is under pressure to generate significant internal resources to complement foreign grants and lending to fund these expenditures. The Fiscal Pact sought to address Guatemala's need for higher internal income by designing a new tax system. Among numerous other changes, the Fiscal Pact included a proposal to raise the nation's value-added tax from 10 to 12 percent. Without this increase, it is unlikely that the Guatemalan government will be able to collect revenues equal to the 12 percent of GDP required under the Peace Accords. At this time, it is unclear what measures the Guatemalan government will take to achieve this goal.

The Superintendency of Tax Administration, created in 1999 to improve compliance, reported revenue increases of 11 percent in the first seven months of 2000, as compared to the same period in 1999. Ninety percent of the government's current income is from taxes. Indirect taxes, primarily the value-added tax and duties, account for 80 percent of all tax revenues. Personal income taxes account for less than two percent of all tax revenues. Guatemala received over $500 million from the sale of the state-owned electricity company in 1998 and an additional $400 million over three years from the 1998 privatization of the telephone company. Over $300 million of these funds have been used for retirement of public debt. The Guatemalan government issued a decree on June 30, 2000 (Decree 44–2000) that would eliminate tax deductibility of interest paid to foreign banks. However, proposed changes in implementing the decree may address U.S. business concerns about the tax measures, depending on further interpretation.

4. Debt Management Policies

Despite inclusion of capital income from the 1998 sale of state-owned assets, the FY 2000 budget projects a deficit of 2.3 percent of GDP. While the Portillo administration has cut back government expenditures, the FY 2001 budget still projects a deficit of $524 million. In the absence of firm policies designed to increase revenues and political commitments to fund the peace accords, many experts expect higher fiscal deficits than those forecast by the government. This deficit will be financed through a combination of internal borrowing, foreign borrowing, and loans from foreign governments and international lending agencies. Guatemala's total public debt at the end of 2000 will be approximately $3.7 billion, of which $1 billion is internally held and $2.7 billion is foreign debt.

Guatemala has successfully converted some domestic debt from short term, high-interest instruments to longer-term, lower interest debt, including dollar-denominated commercial debt. The FY 2001 budget calls for appropriation of $452 million for debt service. Guatemala is current in its payments on both U.S. and other foreign debt.

5. Aid

USAID contributes $60 to $65 million annually to Guatemala in technical assistance and development programs. Total foreign donations anticipated in the 2001 budget are approximately $103 million. However, the budget only includes funds already pledged and programmed. Actual financial assistance is usually significantly higher than as stated in the preliminary budget document.

6. Significant Barriers to U.S. Exports

Guatemala applies the common external tariff schedule of the Central American Common Market, which ranges from zero to 15 percent for most agricultural and industrial goods. Exceptions include agricultural commodity imports in excess of their Tariff Rate Quotas (TRQ).

Guatemala, in compliance with its WTO obligations, created TRQs for rice, corn, wheat and wheat flour, apples, poultry and beef. All poultry parts are valued at a minimum of 56 cents/pound for customs purposes, significantly increasing the effective tariff rate and the cost of imported poultry products. Guatemala's current import tariff rates for agricultural products are below the WTO tariff bindings. Also, the Quota Allocation Procedure is complicated and costly, in effect creating a barrier to entry.

Imported processed foods must be registered with the Ministry of Health by each individual importer. However, importers have the option of joining an association of importers and paying a fee for the use of other members' registrations. Processed foods must also be labeled in Spanish. Enforcement of this requirement has been lax, though compliance is increasing. Stickers on labels are allowed.

Sanitary and phytosanitary licenses are required for all imports of animal origin, and plants and vegetables. Inspection of the processing plant in the country of origin, at the importers' expense, is technically required for the license; however, implementation has been uneven, limiting trade disruption.

Importers should be aware that all documentation for import procedures requires consular certification, an administrative process that can be time consuming. Delays in obtaining certification have resulted in some losses to shipments of perishables. Imports are not generally subject to nontariff trade barriers, though arbitrary customs valuation and excessive bureaucracy occasionally create delays and complicate the importation process.

Some restrictions remain on foreign investment, but foreign investors generally receive national treatment. However, recent actions by the government, attempting to renegotiate existing investment terms have negatively affected some foreign investments. Subsurface minerals, petroleum, and other resources are property of the state and concessions are typically granted in the form of production-sharing contracts.

Surface transportation is limited to companies with at least 51 percent Guatemalan ownership. Foreign firms are barred from directly selling insurance or providing legal, accounting or other licensed professional services. This hurdle can be overcome by establishing a locally incorporated subsidiary or through a correspondent relationship with a local firm. Most of the major U.S. accounting firms, for example, are represented through one of these methods.

7. Export Subsidies Policies

There are no export subsidies.

8. Protection of U.S. Intellectual Property

Guatemala belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Bern Convention, Rome Convention, Phonograms Convention, and the Nairobi Treaty. Nevertheless, in 1999 the U.S. Trade Representative placed Guatemala on the "Special 301" Priority Watch List due to inadequate protection of intellectual property rights (IPR).

In August 2000 the Guatemalan Congress passed legislation that should increase the protection afforded to the holders of intellectual property rights. Effective November 1, 2000, IPR violations become criminal, as opposed to civil, offenses, and the government is required to name a special prosecutor for IPR.

9. Worker Rights

The Guatemalan Constitution and the country's labor code guarantee a progressive range of internationally recognized worker rights. Exercise of these rights, however, is not effectively secured by the institutions charged with doing so. Guatemalan labor activists persistently complain that, when their labor and civil rights are violated, at times egregiously, the justice system fails to redress the injury and the perpetrators benefit from impunity. Guatemala's beneficiary status under the Caribbean Basin Trade Preference Act (CBTPA) will be reviewed in April 2001, with a focus on further improvements in the area of worker rights. In addition, the Office of the U.S. Trade Representative (USTR) has self-initiated a review of Guatemala's eligibility as a beneficiary country under the General System of Preferences (GSP). This review will also be concluded in April 2001 and will focus on the Guatemalan government's response to anti-union violence and other aspects of international recognized worker rights.

a. *The Right of Association* and b. *The Right to Organize and Bargain Collectively:* The Guatemalan Constitution guarantees the right of association. The constitution also specifically guarantees workers the right to unionize. Furthermore, the constitution stipulates that "what is established in treaties and conventions to which the state is party is to be considered part of the basic rights enjoyed by Guatemalan workers." Guatemala is one of only 27 countries to have ratified all seven of the ILO's "core" conventions, including Convention 87 (Freedom of Association and Protection of Right to Organize) and Convention 98 (Right to Organize and Collective Bargaining). The Labor Ministry in June 2000 sent to the National Legislature a package of proposed changes to the Labor Code aimed to bring Guatemala's labor law into full accord with Conventions 87 and 98.

In practice, workers who exercise the right of association and try to organize unions are often fired for doing so. The law fully protects workers from retribution for forming and participating in trade union activities, but effective enforcement of these provisions is the exception rather than the rule. Less than 3 percent of the country's workforce of 4.3 million is organized. Most of these workers belong to private sector unions. Under the Portillo administration, the Labor Ministry has undertaken a far-reaching effort to improve the labor inspection function.

The Labor Code allows collective bargaining if at least 25 percent of a company's employees are union members. Many employers routinely seek to circumvent labor code provisions in order to resist union activities, which they view as disruptive and as a challenge to their full control of the workplace. An ineffective legal system and inadequate penalties for violations have hindered enforcement of the right to form unions and participate in trade union activities. Although the Labor Code provides that workers illegally fired for union activity should be reinstated within 24 hours, in practice employers often file a series of appeals, or simply defy judicial orders of reinstatement. Penalties for defying such orders were increased somewhat in the 1992 labor code reform and again in Decree 35–98, which went into effect in June 1998.

c. *Prohibition of Forced or Compulsory Labor:* The constitution bars forced or compulsory labor. Labor for prisoners with sentences of more than two years is obligatory, but this labor may not be used as punishment for expression of political or other opinions, or as a method of political reeducation.

d. *Minimum Age for Employment of Children:* The constitution bars employment of minors under the age of 14 except as authorized by law. In addition, the constitution prohibits "employing minors in work that is incompatible with their physical ability or that puts at risk their moral development." Employment of minors requires written permission from the Ministry of Labor. There are fewer than 5,000 such permits in effect, the majority of them for work in the in-bond processing for export, or maquila, sector. The Ministry of Labor is engaged actively in reducing the number of these permits and issued less than 1,500 in 1999. However, many children under the age of 14 are employed without legal permission. They generally receive no social benefits, social insurance, vacations, or severance pay, and earn below-minimum salaries. The Labor Ministry has a program to educate minors, their parents, and employers on the rights of minors in the labor market. In 1992 the government formed the Child Worker Protection Unit within the Ministry of Labor. Work began last year on a "National Plan for the Prevention and Eradication of Child Labor and Protection of Adolescent Workers." The Ministry of Labor, with the support of a consortium of NGOs, has been drafting this plan. The Ministry of Labor actively supports and cooperates with NGO programs to combat child labor.

e. *Acceptable Conditions of Work:* The constitution provides for a 44-hour normal workweek and the average number of hours worked is 42.5. Occupational safety and health regulations exist but often are not strictly enforced. The minimum wage is far below the level necessary to support an urban family of four, though many urban workers earn two or three times this amount; however, not all workers are paid the legally-mandated minimum wage.

f. *Rights in Sectors with U.S. Investment:* With few exceptions, international corporations adhere to the labor code and respect worker rights. There have been some credible complaints about failure to respect the right of association in the construction phase of power generating plants. U.S. companies are among the leaders in requiring that maquilas that produce garments for them adhere to codes of conduct with respect to working conditions and worker rights.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		453
Total Manufacturing		217
Food and Kindred Products	91	
Chemicals and Allied Products	74	
Primary and Fabricated Metals	2	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	50	
Wholesale Trade		25
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		4
Other Industries		(1)
TOTAL ALL INDUSTRIES		453

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

HAITI

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
GDP [2]	3,800	4,115.4	4,164.8
Real GDP Growth (pct) [3]	2.9	2.26	1.2
GDP by Sector:			
Agriculture	0.5	2.5	N/A
Manufacturing	5.5	1.2	N/A
Services	1.2	2.4	N/A
Government	N/A	N/A	N/A
Per Capita GDP (US$)	497	506	528
Labor Force (000s)	4,290	4,380	N/A
Unemployment Rate (pct)	70	70	70
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	14.7	17.7	30.9
Consumer Price Inflation	8.2	9.9	12.6
Exchange Rate (Gourde/US$ annual average)			
Market (end of period)	16.8	16.94	24.25
Balance of Payments and Trade: [4]			
Total Exports FOB [5]	284.3	353.4	351
Exports to United States [6]	210	261	261
Total Imports FOB [5]	659.8	821.6	848.6
Imports from United States [6]	515	N/A	N/A
Trade Balance [5]	–375.5	–469.7	–497.6
Balance with United States [6]	–305	N/A	N/A

Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Current Account Deficit/GDP (pct)	6.1	7.3	7.1
External Public Debt	1,086	1,140	1,165
Debt Service Payments/GDP (pct)	1.2	0.62	N/A
Fiscal Deficit/GDP (pct)	1.1	1.7	2.2
Gold and Foreign Exchange Reserves (net)	194.8	218.3	178
Aid from United States [7]	N/A	N/A	N/A
Aid from All Other Sources	371	357	370

[1] 2000 figures are all estimates based on available monthly data in October. Fiscal year is October-September. Fiscal year data used because calendar year data is unavailable in many cases.
[2] GDP at factor cost at 1976 prices.
[3] Percentage changes calculated in local currency.
[4] U.S. and Haitian import/export data may vary as a result of different statistical practices. Data in Haiti are not reliable. Technical assistance is being provided to the Haitian government to improve data collection procedures.
[5] Merchandise trade for calendar year; does not include U.S. goods imported for processing and re-exported under the Caribbean Basin Initiative.
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 2000 figures are estimates based on data available through September. Figures include substantial amounts of U.S. goods imported for processing and re-exported under Caribbean Basin Initiative.
[7] New commitments; USAID includes program assistance, budget support, and support for peacekeeping operations and police.

Sources: Various, including IMF. Where several data sets existed we have used those numbers provided by USAID.

1. General Policy Framework

Haiti has a predominantly agriculture-based, market-oriented economy with a small industrialized export sector centered on textiles and garments. Historically, Haiti's economic performance has been strongly influenced by the United States, its principal trading partner and largest bilateral aid contributor. The economic policy environment is in transition; presidential and some parliamentary elections took place in late November 2000. A new government, whose program and development strategy are not yet known, will take office in February 2001.

Incumbent President Rene Preval took office in March 1996 and began to implement an IMF-backed structural adjustment program. The government cut expenditures and eliminated some 1,500 "ghost employees." Parliament passed civil service reform legislation and a modernization law to enable the government to proceed with privatization through the granting of management contracts, concessions, or "recapitalizations" (formation of joint ventures with private investors through partial divestitures of state-owned enterprises).

By late 1999, however, the government's commitment had slipped. Although almost 5,000 employees had been removed from government payrolls by the end of 1998, by July 1999 government expenditures on salaries had crept back to July 1998 levels, and hiring was slowly on the rise. Further, only the three least complicated of seven planned privatizations have taken place, the last in mid-1999. The absence of a seated parliament from January 1999 until August 2000 further delayed the privatization process, and any chance of forward progress on privatization before mid-2001 (after the new government is in place) appears remote.

The government maintained reasonably good macroeconomic discipline during the first half of 1999. GDP growth hovered around three percent for both 1998 and 1999. Inflation fell from 18 percent in 1997 to 7 percent in 1998. By the beginning of FY2000, significant increases in government spending and a continuing decline in exports began to seriously affect the macroeconomic situation and signaled a weakening of fundamentals. Inflation crept past 9 percent by the end of 1999 and was estimated at roughly 12 percent by September 2000. Furthermore, the previously stable gourde was under increasing pressure and slipped against the dollar. While the triple pillars of international aid, remittances from the approximately one million Haitians living abroad and, increasingly, narcotics trafficking continue to prop up Haiti's economy, the ongoing political crisis has reduced direct foreign assistance to the Haitian government.

Reserve requirements were raised sharply in September 2000. Traditionally, such requirements have been the central bank's primary monetary policy tool. They have been used to control the money supply and to assist in financing public sector debt. Since November 1996, the central bank has conducted bond auctions to help control liquidity in the economy. The central bank has a rediscount facility and a lending facility for commercial banks. Use of the rediscount facility has been limited by a lack of eligible financial paper to rediscount. Use of the lending facility has been limited by the relatively high interest rate charged (usually the legal maximum), and low legal limits relative to bank capital on the amounts commercial banks can borrow. An interbank market also exists.

2. Exchange Rate Policy

Haiti has no exchange controls or restrictions on capital movements. Dollar accounts are available at local commercial banks. The gourde is allowed to float freely relative to the dollar and other currencies. The exchange rate was roughly 18 gourdes per dollar at the beginning of FY2000. It depreciated in March 2000 to 24 gourdes per dollar. After recovering in June-July to 20, the gourde dropped sharply in September 2000, reaching 32 gourdes per dollar before returning to a range of 24 to 26 gourdes per dollar in October 2000. Given the rising fiscal deficit in CY 2000 and a perceived uncertainty about the future of the economy, some observers believe the gourde may face continued depreciation in the future.

3. Structural Policies

The government's role in Haiti's market-oriented economy has been reduced since 1995. In the few cases where the government has attempted to control prices or supplies, its efforts were frequently undercut by contraband or overwhelmed by the sheer number of small retailers. Consumer prices are governed by supply and demand, though the small Haitian market is imperfect for determining some prices. Subsidized gasoline pump prices and utility rates are more effectively regulated, and are probably the only exceptions to market prices. Haitian law permits the government to adjust gasoline pump prices within a pre-determined band to reflect changes in world petroleum prices and exchange rate movements but this mechanism does not function automatically. The Haitian government raised pump prices in early September 2000 in response to high international market prices in late 1999 and 2000, but it did not permit petroleum product prices to fluctuate when the world price of oil exceeded the band several weeks later. Despite the price hike, continued increases in international prices have cut sharply into government tax revenues from the sale of fuel products.

Haiti's tax system is inefficient. Direct taxes on salary and wages represent only about 25 percent of receipts. Moreover, tax evasion is widespread and taxpayers were previously not registered with the tax bureau, Direction Generale des Impots (DGI). Not surprisingly, the government has made improved revenue collection a top priority. The DGI has organized a large taxpayers' unit which focuses on identifying and collecting the tax liabilities of the 200 largest corporate and individual taxpayers in the Port au Prince area, which are estimated to represent over 80 percent of potential income tax revenue. In mid-1999 the Haitian government created a State Secretary for Revenue to coordinate and oversee both Customs and DGI operations with a view toward increasing receipts from each. Efforts were also made to identify and register all taxpayers through the issuance of a citizen taxpayer ID card. In addition, the value added tax has been extended to include sectors previously exempt (banking services, agribusiness, and the supply of water and electricity). Both DGI and Customs made revenue collection a priority in 2000 and have continued to increase revenues, though not to the extent of their stated goals. In general, collection remains sporadic and inefficient, even though the tax authorities are under increasing pressure to raise tax revenues.

4. Debt Management Policies

On May 30, 1995 the Paris Club agreed to reschedule all of Haiti's bilateral debt to Paris Club members. Roughly two-thirds of this debt ($75 million) was forgiven under "Naples" terms. The balance was rescheduled over 26–40 years. An overwhelming percentage (91 percent in FY 1995, 85 percent in FY 1996) of Haiti's debt is in concessional loans from IFIs. These loans typically have 10-year grace periods, 40-year payback periods, and below-market interest rates.

Current figures (1999–2000) on Haiti's external public debt are not available. The external public debt rose to about 40 percent of GDP in FY 98 (from 34 percent at the end of FY 96). With continued progress on economic reform and a modest debt service burden, Haitian government officials believe the country should be able to meet all its obligations in a timely manner. However, as hard currency reserves had fallen to low levels by mid-2000, Haiti has briefly fallen into arrears on its payments to both the IDB and the IBRD. Debt service payments to the IBRD and the IMF currently exceed inflows from the organizations.

5. Significant Barriers to U.S. Exports

With the lifting of all economic sanctions against Haiti, the sharp reduction in tariffs, and the government's decision to remove all import licenses and the 40 percent foreign exchange surrender requirement on export earnings, there have been few significant barriers to U.S. exports since 1995. The resumption of normal trade in October 1995 unleashed tremendous pent-up demand for U.S. goods. While the demand for U.S. goods remained strong in 2000, political and economic uncertainty significantly constrain growth. The import of firearms and other weapons into Haiti is controlled for foreign policy reasons. Prospective Haitian importers must obtain a license to purchase such goods from U.S. suppliers.

Haiti's efforts to facilitate inward investment are insufficient to significantly draw all but the most intrepid foreign investors. The Taiwan-financed Center for Promotion of Investment, founded in 1998, is attempting to address the problems Haiti has had in promoting investment and exports. However, an export promotion center alone will not be able to improve the investment climate significantly. An improved policy environment and the political will to put it into action are required, supported by the strengthening of key legal, regulatory and judicial institutions to create an environment of respect for the rule of law.

6. Export Subsidies Policies

Haiti has no export subsidy programs.

7. Protection of U.S. Intellectual Property

While infringement of intellectual property rights occurs in Haiti, the economy only produces a small variety of products, most of which are for export to the United States and other countries that do not tolerate open infringement. Most manufactured goods sold here are imported. The most recent example of intellectual property rights infringement was the broadcast of a recently released U.S. film on a Haitian cable TV station in 1998. This was taken up with the Haitian authorities and has not happened since. Pirated video and audiocassettes are widely available and of poor quality.

Although the legal system affords protection of intellectual property rights, weak enforcement mechanisms, inefficient courts, and poor judicial knowledge of commercial law dilute the effectiveness of this statutory protection. Moreover, injunctive relief is not available in Haiti, so the only way to force compliance (should it become necessary) is to jail the offender. Efforts to reform and improve the Haitian legal system, now being undertaken with the assistance of international advisors, may prevent more extensive abuse of intellectual property rights as Haiti's economic recovery progresses. The Ministry of Commerce and Industry is working on legislation to protect intellectual property rights and has participated in several local conferences in 2000 on the subject.

Haiti is signatory to the Buenos Aires Convention of 1910 and the Paris Convention of 1883 with regard to patents, and to the Madrid Agreement with regard to trademarks, and is a member of the World Intellectual Property Organization. However, Haiti is not a signatory to the Bern Convention.

8. Worker Rights

a. *The Right of Association:* The constitution and the labor code guarantee the right of association and provide workers, including those in the public sector, the right to form and join unions without prior government authorization. The law protects union activities, while prohibiting closed "union shops." The law also requires unions, which must have a minimum of ten members, to register with the Ministry of Social Affairs within 60 days of their formation. A draft update of the Labor Code is currently in circulation and may be considered when parliament reconvenes in 2001.

Six principal labor federations represent about five percent of the total labor force, including about two to three percent of labor in the industrial sector. Each maintains some fraternal relations with various international labor organizations.

b. *The Right to Organize and Bargain Collectively:* The labor code protects trade union organizing activities and stipulates fines for those who interfere with this right. Unions are theoretically free to pursue their goals, although government efforts to enforce the law are non-existent. Organized labor activity is concentrated in the Port-au-Prince area, in state enterprises, the civil service, and the assembly sector. The high unemployment rate and anti-union sentiment among some factory workers has limited the success of union organizing efforts. Unions complain that employers do not allow unions access to workers, and individuals that attempt to join unions risk being fired. Collective bargaining is nearly nonexistent, especially in the private sector. Employers can generally set wages unilaterally, in compliance with minimum wage (currently set at 35 Haitian gourdes per day) and overtime standards.

Haiti has one nascent export processing zone, and the labor code does not distinguish between industries producing for the local market and those producing for export. Employees in the export-oriented assembly sector enjoy wages and benefits above the legal minimums, largely through piece-work. Wages appear to be somewhat higher in the more capital-intensive industries producing for the local market.

c. *Prohibition of Forced or Compulsory Labor:* The labor code prohibits forced or compulsory labor. However, some children continue to be subjected to unremunerated labor as domestic servants. Rural families are often too large for the adult members to support, and children are sometimes sent to work for urban families in exchange for room, board and schooling. Reports of abuse are common. In recent years the Ministry of Social Affairs has expanded the capacity of its Institute of Social Well-being (IBESR) to remove children from abusive situations.

d. *Minimum Age for Employment of Children:* The minimum employment age in all sectors is 15 years. Fierce adult competition for jobs ensures that child labor is not a factor in the industrial sector. As in other developing countries, rural families in Haiti often rely on their children's contribution of labor in subsistence agriculture. Children under 15 commonly work at informal sector jobs to supplement family income.

e. *Acceptable Conditions of Work:* Annually, a minimum wage worker earns about $670, an income considerably above the per capita gross domestic product, but sufficient only to permit the family to live in very poor conditions. The majority of Haitians work in subsistence agriculture, a sector where minimum wage legislation does not apply.

The labor code governs individual employment contracts. It sets the standard workday at 8 hours and the workweek at 48 hours, with 24 hours of rest on Sunday.

The code also establishes minimum health and safety regulations. The industrial and assembly sectors largely observe these guidelines, and the ILO has begun working closely with these sectors to meet international standards. Individual firms are motivated to comply with codes of conduct adopted by some of the U.S.-based multinational corporations that import textiles and garments from Haiti. They are making efforts to bring their plants into conformity with such codes. The Ministry of Social Affairs does not effectively enforce work hours or health and safety regulations.

With more than 50 percent and possibly 75 percent of the active population unemployed or underemployed, workers are often not able to exercise the right to remove themselves from dangerous work situations without jeopardy to continued employment.

f. *Rights in Sectors with U.S. Investment:* U.S. direct investment in goods-producing sectors in Haiti is limited, consisting of ownership of a few garment factories and a very few joint ventures. In general, conditions differ little from other sectors of the economy. Wages paid in these industries tend to be above the legal minimum, and in the case of industries producing for the local market, often a multiple of the legal minimum. Employers in these sectors frequently offer more benefits than the average Haitian worker receives, including free medical care and basic medications at cost.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		0
Food and Kindred Products	0	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		4
Finance/Insurance/Real Estate		(1)
Services		1
Other Industries		0
TOTAL ALL INDUSTRIES		56

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

HONDURAS

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP (US$) [2]	5,135.0	5,346.0	5,704.0
Real GDP Growth (pct)	3.0	–1.9	4.0–5.0
GDP by Sector:			
Agriculture	1,624.0	1,482.0	1,587.0
Manufacturing	967.0	992.0	1,025.0
Services	485.0	491.0	508.0
Government	299.0	305.0	318.0
Per Capita GDP (US$/population)	940	940	969
Labor Force (000s)	2,040.8	2,128.5	2,220.5
Unemployment Rate (pct)	3.9	3.7	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2)	18.4	20.6	20.1
Consumer Price Inflation	15.7	10.9	10–12
Exchange Rate (LP/US$ annual average).			
Official	13.54	14.56	15.19
Parallel	13.41	14.42	14.97
Balance of Payments and Trade:			
Total Exports FOB	1,656.7	1,303.9	1,539.0
Exports to United States [3]	623.3	457.4	500.0
Total Imports CIF	2,337.6	2,558.0	2,867.0
Imports from United States [3]	1,165.8	1,193.3	1300.0
Trade Balance	–680.9	–1,254.1	–1,328.0
Balance with United States [3]	–542.5	–735.9	–800.0
External Public Debt	4,403.8	4,728.0	4,083 (Jul)
Fiscal Deficit/GDP (pct)	1.5	3.7	7.0
Current Account Deficit/GDP (pct)	0.8	3.2	9.0
Debt Service Payments/GDP (pct)	17.3	14.1	N/A
Gold and Foreign Exchange Reserves	659.8	1,001.3	968.3
Aid from United States [4]	44.3	103.4	100.0
Aid from Other Countries	N/A	243.8	N/A

[1] 2000 figures are projections based on data available in October.
[2] GDP at factor cost.
[3] Honduran trade data do not include transactions with the large maquila sector, which is accounted for as a value-added service. U.S. government data for trade with Honduras is significantly higher: U.S. exports to Honduras were $2.3 million in 1998 and $2.4 million in 1999. U.S. imports from Honduras were $2.5 million in 1998 and $2.7 million in 1999.
[4] Includes USAID disaster relief and reconstruction assistance expenditures in response to Hurricane Mitch.

1. General Policy Framework

Honduras, already one of the poorest countries in the hemisphere, with low per capita income and relatively low health and education indicators, continues to suffer from the devastation caused by late October 1998's Hurricane Mitch. Massive international assistance, led by the United States at over $550 million for 1999–2001, provided emergency relief and is helping Honduras rebuild. Many of the homeless have already received new houses in an effort led by churches and NGOs. Epidemics were averted, basic services restored, and temporary repairs made. The overall pace of reconstruction has been slower than many would have hoped due to the Honduran government's limited capacity to actively implement projects, the sometimes delayed arrival of international aid, and the need to ensure that assistance is not misused.

Honduras has received significant debt relief in the aftermath of Hurricane Mitch, including the deferral of all bilateral debt service payments between November 1998 and December 2001 by the Paris Club, including the United States. In July 2000 Honduras reached its decision point under the Highly Indebted Poor Countries (HIPC) Initiative, qualifying the country for interim debt relief.

Honduras continues to maintain macroeconomic stability. After an inflationary spike at the end of 1998, inflation fell to 10.9 percent in 1999, though it has crept up in 2000 and will likely climb further in 2001 due to union-led wage increase demands. The currency (lempira) has only moderately devalued. A widened balance of payments deficit, worsened by the Mitch-induced recession with decreased exports (from crop damage and low world prices in coffee and bananas) and increased imports (for reconstruction), is being covered by international aid, reinsurance payments, and increased family remittances. International reserves have risen.

Since 1990, succeeding governments have embarked on economic reform programs, dismantling price controls, lowering import tariffs, removing nontariff barriers to trade, adopting a free market exchange rate regime, removing interest rate controls, and passing legislation favorable to foreign investment. In an IMF agreement signed in March 1999, Honduras committed to privatize management of the airports, the telephone company, and electricity distribution. Airport management was turned over to a U.S.-led consortium in October 2000, though the telephone company bid failed the same month as the government's minimum price was not met, and a bill authorizing privatization of electricity distribution continues to languish in Congress. Congress passed laws in late 1998 to encourage foreign investment in tourism, mining, and agriculture, though their potential has yet to be realized. The biggest success story of all has been the growth of the maquila (assembly for export) industry (with significant U.S. investment), from virtually zero in 1989 to over 200 plants in 1999 generating over $500 million in foreign exchange and employing 120,000 workers. Implementation of the Caribbean Basin Trade Partnership Act in October 2000, which provides enhanced benefits to Honduras and other countries of the region, is expected to further boost investment and employment in the sector. Nonetheless, overall growth in foreign investment is hampered by a politicized judiciary subject to influence, a deficient education system, insecure property titles, non-transparent bidding procedures, and cumbersome bureaucratic requirements.

Honduras became a founding member of the World Trade Organization (WTO) in 1995 and participates in international trade negotiations, including those related to the establishment of the Free Trade Area of the Americas. A Bilateral Investment Treaty (BIT) was signed in 1995 and ratified by the Honduran Congress and the U.S. Senate. The United States and Honduras are finalizing the text of a bilateral Intellectual Property Rights Agreement, a draft of which was initialed in March 1999. The Honduran Congress passed legislation in December 1999 to comply with the WTO's TRIPS agreement.

2. Exchange Rate Policy

The Central Bank uses an auction system to regulate the allocation of foreign exchange. Dollar purchases, in which foreigners may participate, are conducted at 5 to 7 percent above or below the base price established every 5 days. During recent auctions, the Central Bank has been adjudicating an average of $8 million daily. Foreign exchange demand in 1999 was 99.2 percent covered.

The Foreign Exchange Repatriation Law passed in September 1990 requires all Honduran exporters, except those operating in free-trade zones and export processing zones, to repatriate 100 percent of their export earnings through the commercial banking system. Until recently, commercial banks were allowed to use 70 percent of export earnings to meet their clients' foreign exchange needs. The other 30 percent had to be sold to the Central Bank at the prevailing inter-bank rate of exchange. Presently, commercial banks are required to sell 100 percent of these repatriated earnings to the Central Bank (except for exporters operating in free trade zones and export processing zones as well as remittances), which in turn auctions up to 60 percent in the open market.

3. Structural Policies

Trade Policy: In an effort to increase trade and maintain competitiveness with its Central American neighbors, the duty assessed by the Honduran government ranges between 1 and 17 percent for most items. However, sensitive items such as automobiles are assessed a higher rate, up to a 35 percent ceiling. Honduras is a member of the Central American Common Market, which includes Costa Rica, El Salvador, Nicaragua and Guatemala. In 1995 Honduras and other Central American Common Market (CACM) members agreed to work toward the full implementation of a common external tariff (CET) ranging between zero and 15 percent for most products, but allowing each country to determine the timing of the changes. With the exception of certain items, there are no duties for products traded among CACM members; however, Nicaragua imposed a 35 percent tariff on Honduran imports in December 1999 over a maritime boundary dispute. Tariffs on certain raw materials and inputs produced outside the Central American region and tariffs on capital goods have been reduced to one percent. Extra-regional tariffs for intermediate goods were reduced from 15 percent to 10 percent, while tariffs on finished goods will be reduced from 20 percent to 15 percent by 2000. On August 29, 2000 Honduras, along with Nicaragua, joined the customs union formed by Guatemala and El Salvador in 1996.

Members of the Northern CACM Triangle (Honduras, Guatemala and El Salvador) finalized the negotiation of a free trade agreement with Mexico in June 2000. Although not yet signed, Honduras has completed over 90 percent of negotiations for a free trade agreement with the Dominican Republic. Honduras and the rest of Central America are also negotiating free trade agreements with Chile, Panama, the Andean Community and Taiwan.

Pricing Policy: Medicines are the only products under a formal price control regime. The government also reviews the price of gasoline, diesel, and liquid propane gas, as well as the rates for public transportation and public utilities. In addition, it also keeps an informal control over prices of certain staple products, such as milk and sugar, by pressuring producers and retailers to keep prices as low as possible. Products imported into Honduras are usually priced on the CIF value, import duties, in-country transportation costs, and distribution margins.

Tax Policies: The corporate tax rate decreased from 30 percent in 1998 to 25 percent in 1999. The local sales tax was increased from 7 percent to 12 percent in 1998 for most products. Products exempted from this tax include staple foods, milk, juice, purified water, fuels, medicines, agrochemicals, household cleaning products, books, magazines and educational materials, agricultural machinery and tools, handicrafts, and capital goods such as trucks, cranes, tractors, and computers. Alcohol, cigarettes and tobacco products are assessed a 15 percent tax. The elimination of a one percent tax applied on the FOB value of all articles exported was implemented in 2000. Export taxes on bananas have been reduced in stages from 50 to 4 cents a box in 2000. Special export taxes on seafood, sugar and live cattle were eliminated in 2000. Tourism services have been subject to a four percent tax since 1998.

4. Debt Management Policies

At the end of 1999, Honduras' total external debt stock was $4.3 billion. Honduras signed an Enhanced Structural Adjustment Facility (ESAF, now Poverty Reduction and Growth Facility [PRGF]) Agreement with the IMF in March 1999. In April 1999 the Paris Club granted a three-year rescheduling on Naples terms (67 percent reduction of eligible debt). Combined with the debt service deferral, this reduced the originally scheduled debt service for 1999 from $396 million to $348 million. Honduras also received special assistance from bilateral donors, mainly through the Central American Emergency Trust Fund (CAETF), which reduced its debt service payments to multilateral creditors. Honduras received pledges of donor support at the May 1999 Consultative Group Meeting in Stockholm of $2.7 billion. In exchange, Honduras pledged to maintain responsible monetary policies, strengthen oversight of the financial sector, control the public wage bill, overhaul the national pension system, and accelerate the privatization of the telephone company and the electric company's distribution system. In July 2000 the IMF and the World Bank Boards approved Honduras' decision point under the Heavily Indebted Poor Countries (HIPC) Initiative. Honduras is eligible for interim debt relief and will qualify for $556 million in debt relief in present value terms or $900 million in nominal terms at its completion point.

5. Aid

As a result of the devastation caused by Hurricane Mitch, Honduras has been receiving an unprecedented amount of foreign assistance. At the May 1999 Stockholm consultative meeting, donors pledged $2.7 billion. The United States has provided the single largest amount of aid to Honduras. According to U.S. Embassy calculations, the United States has obligated $555 million from October 1999 through December 2001. $55 million of this amount was spent on immediate emergency relief and the rest in reconstruction assistance. U.S. government agencies involved in assistance to Honduras include USAID (overall coordinator), DOD, USDA, USDOC, DOT, USGS, HUD, OPIC, and Ex-Im Bank. Other countries have provided significant aid as well, including Japan, Sweden, Spain, Italy, Canada, and Germany. The Inter-American Development Bank, the World Bank, the International Monetary Fund, the United Nations Development Program, and other international organizations have been actively involved in reconstruction, as have numerous non-governmental organizations.

6. Significant Barriers to U.S. Exporters

Import Policy: The government forbids the import of certain items that compete with domestic industries. These vary over time, but at present include cement, sugar and rice from southeastern Asia, and beef from South America. Import restrictions are also imposed on firearms and ammunitions, toxic chemicals, pornographic material and narcotics. Other import restrictions are applied to chicken meat and cosmetics. Import restrictions are mainly based on phytosanitary, public health, public morals, and national security factors.

Services Barriers: In certain services industries (e.g., local transportation, insurance, radio and TV stations, and distributorships), majority control must be in the hands of Honduran nationals. Special government authorization must be obtained to invest in the tourism, hotel and banking service sectors. Foreigners may not hold a seat in Honduras' two stock exchanges or provide direct brokerage services in these exchanges. Honduran professional bodies heavily regulate the licensing of foreigners to practice law, medicine, engineering, accounting, and other professions.

Labeling and Registration of Processed Foods: Honduran law requires that all processed food products be labeled in Spanish, contain expiration dates, and be registered with the Ministry of Public Health. The law is usually not enforced for U.S. products in recognition of U.S. health inspection procedures.

Investment Barriers: The Honduran Constitution requires that all foreign investments complement, but not substitute for, national investment. Although there is a clear preference on the part of the government for new foreign investment in export industries, there are no officially mandated requirements that foreign investors must satisfy as a condition for investing in Honduras. The 1992 Investment Law guarantees national treatment to foreign private firms in Honduras, with only a few exceptions. In certain types of industries, majority Honduran ownership is required. Foreign companies that wish to own land based on the Agrarian Reform Law, engage in commercial fishing, local transportation, and forestry, or are representatives, agents, or distributors for foreign companies or seek to operate radio and television stations, must partner with Honduran nationals. There are also limits on the amount of land a single corporation may own. Small-scale commercial and industrial activities with an investment no greater than Lempiras 150,000 ($11,000) excluding land, buildings and vehicles) are reserved exclusively for Honduran nationals.

The Honduran Constitution prohibits the foreign ownership of land within 40 kilometers of land borders and shorelines. A proposed constitutional amendment to modify the prohibition was dropped in 1999 due to opposition by ethnic groups living along the Caribbean Coast. In all investments, at least 90 percent of a company's labor force must be Honduran, and at least 80 percent of the payroll must be paid to Hondurans. Inadequate land titling procedures have led to numerous investment disputes involving U.S.-citizen landowners. The U.S. Embassy has worked extensively to assist these citizens, most of whose cases are being litigated in Honduran courts.

On July 1, 1995 Honduras and the United States signed the Bilateral Investment Treaty (BIT) at the Hemispheric Trade Ministerial in Denver, Colorado. This treaty has been ratified by the Honduran Congress and approved by the U.S. Senate in October 2000.

Government Procurement Practices: Foreign firms are legally given the same treatment as national firms for public bids. In practice, however, U.S. firms complain about the mismanagement and lack of transparency of government bid processes. To participate in public tenders, foreign firms are required to act through a local agent. By law, local agency firms must be at least 51 percent Honduran-owned, unless the procurement is classified as a national emergency.

Under the State Contracting Law, all public works contracts over Lempiras 200,000 ($13,000) must be offered through public competitive bidding. The government publishes tenders in Honduras' major newspapers. All contracts over Lempiras 2,250,000 ($150,000) with government ministries must be reviewed by the Attorney General's Office. Government purchases and project acquisitions are generally exempted from import duties.

Customs Procedures: Customs administrative procedures are burdensome. There are extensive documentary requirements and other red tape involving the payment of numerous import duties, customs surcharges, selective consumption taxes, and warehouse levies. Honduras agreed in November 1999 to implement eight Free Trade Area of the Americas customs related business facilitation measures. In February 2000 Honduras implemented the World Trade Organization Customs Valuation Agreement, which relates to the invoice value (the price actually paid for the goods). As of April 1998, the administrative customs service tax was eliminated for most products.

7. Export Subsidies Policies

Almost all export subsidies have been eliminated. The Temporary Import Law (RIT) allows exporters to introduce raw materials, parts, and capital equipment into Honduras exempt from surcharges and customs duties if the product is to be incorporated into a product which is exported outside Central America. Export Processing Zones (ZIPS) are exempt from paying import duties and other charges on goods and capital equipment. In addition, the production and sale of goods within the ZIPS are exempt from state and municipal taxes. Firms operating in ZIPS are exempt from income taxes for twenty years, and municipal taxes for ten years. Foreigners exporting to Honduras are required by law to sell through an agent or distributor only when selling to the government.

8. Protection of U.S. Intellectual Property

Honduras complied with the World Trade Organization's Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement's required January 1, 2000 deadline. In December 1999 the Honduran Congress passed two new laws related to intellectual property to correct deficiencies in previous legislation concerning copyrights, patents, and trademarks. The new Copyright Law adds more than 20 different criminal offenses related to copyright infringement and establishes fines and suspension of services that can be levied against offenders. The new Law of Industrial Property, which covers both trademarks and patents, includes modifications on patent protection for pharmaceuticals, extending the term from seventeen to twenty years to meet international standards. The term for cancellation of a trademark for lack of use has been extended from one year to three years. Bills protecting integrated circuits and genetic plant modifications are still pending before the Honduran Congress.

To be protected under Honduran law, patents and trademarks must be registered with the Ministry of Industries and Trade. The life of a patent ranges from 10 to 20 years, depending on the importance of the invention. Trademarks are valid for up to 10 years from the registration date. Well-known trademarks are protected under the Pan American Convention (1927), to which Honduras is a party.

Despite the reforms, enforcement of IPR laws remains problematic due to insufficient resources. Although some progress have been made, there is still widespread piracy of many forms of copyrighted works, including books, sound and video recordings, compact discs, computer software and television programs. The illegitimate registration of well-known trademarks is still a problem as well. The United States and Honduras initialed a Bilateral IPR Agreement in March 1999. Signing of this agreement is still pending.

9. Worker Rights

a. *The Right of Association:* Union officials remain critical of what they perceive as inadequate enforcement of worker rights by the Ministry of Labor (MOL), particularly the right to form a union. In November 1995 the MOL signed a memorandum of understanding with the U.S. Trade Representative's Office to implement 11 recommendations for enforcement of the Honduran labor code and the resolution of disputes. The MOL has made positive changes implementing several of these recommendations, particularly as they relate to inspection and monitoring of maquilas (primarily, garment assembly plants). Through cooperation within the Tripartite Commission (unions, MOL, maquila association), the number of unannounced and repeat visits to maquila plants by inspectors from the MOL has increased, improving the MOL's effectiveness in enforcing worker rights and child labor laws.

b. *The Right to Organize and Bargain Collectively:* The law protects worker rights to organize and to bargain collectively; collective bargaining agreements are the norm for companies in which workers are organized. Three large peasant organizations are affiliated directly with the labor movement. Only about 14 percent of the work force is unionized, so the economic and political influence of organized labor has diminished in recent years. Although the labor code prohibits retribution by employers for trade union activity, it is a common occurrence. Employers actually dismiss relatively few workers for union activity once a union is recognized; such cases, however, serve to discourage workers elsewhere from attempting to organize. Workers in both unionized and non-unionized companies are under the protection of the labor code, which gives them the right to seek redress from the Ministry of Labor. Labor or civil courts can require employers to rehire employees fired for union activity, but such rulings are uncommon. Labor leaders criticize the Ministry for not enforcing the labor code, for taking too long to make decisions, and for being timid and indifferent to workers' needs. The Ministry has increased inspections and the training of its inspectors; it needs to do more, however, to improve observance of international labor standards.

c. *Prohibition of Forced or Compulsory Labor:* The constitution and the law prohibit forced or compulsory labor. Over the past year, there were no official reports of such practices in the area of child labor.

d. *Minimum Age for Employment of Children:* According to the government and human rights groups, an estimated 350,000 children work illegally. The constitution and the labor code prohibit the employment of minors under the age of sixteen, except that a child who is fifteen years of age is allowed to work with the permission of his parents and the Ministry of Labor. The Children's Code prohibits a child of fourteen years of age or less from working, even with parental permission, and establishes prison sentences of three to five years for individuals who allow children to work illegally. An employer who legally hires a fifteen-year-old must certify that the child has finished or is finishing his compulsory schooling. The Ministry of Labor grants a number of work permits to fifteen-year-olds each year. It is common, however, for younger children to obtain these documents or to purchase forged permits. The Ministry of Labor cannot effectively enforce child labor laws, except in the maquila sector, and violations of the labor code occur frequently in rural areas and in small companies. Many children work on small family farms, as street vendors, or in small workshops to supplement the family income. In September 1998 the government created the National Commission for the Gradual and Progressive Eradication of Child Labor.

e. *Acceptable Conditions of Work:* Daily pay rates vary by geographic zone and the sector of the economy; urban workers earn slightly more than workers in the countryside. The lowest minimum wage occurs in the non-export agricultural sector, where it ranges from $2.33 to $2.97 (35.00 to 44.50 lempiras) per day, depending on whether the employer has more than 15 employees. The highest minimum wage is $3.89 (58.30 lempiras) per day in the export sector, though most workers typically earn more. All workers are entitled to an additional month's salary in June and December of each year. The constitution and the labor code stipulate that all workers must be paid a minimum wage, but the Ministry of Labor lacks the personnel and other resources for effective enforcement. The minimum wage is insufficient to provide a standard of living above the poverty line for a worker and his family. In October 2000 the private sector and two of Honduras' three national labor confederations negotiated a general monthly wage increase of $23 (350 lempiras) for workers earning up to $400 (6000 lempiras) per month. This increase will take effect upon its approval by the Honduran Congress.

f. *Rights in Sectors with U.S. Investment:* The worker rights enumerated above are respected more fully in sectors with sizable U.S. investment than in sectors of the economy lacking substantive U.S. participation. For example, in a number of U.S.-owned maquila plants, workers have shown little enthusiasm for unionizing, since they consider their treatment, salary, and working conditions to be as good as, or better than, those in unionized plants. In establishing new investments in Honduras, U.S. businesses in recent years consciously have constructed their plants to meet more stringent U.S. laws and regulations.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		212
Food and Kindred Products	201	
Chemicals and Allied Products	2	
Primary and Fabricated Metals	(2)	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	3	
Other Manufacturing	6	
Wholesale Trade		2
Banking		5
Finance/Insurance/Real Estate		4
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		56

(1) Suppressed to avoid disclosing data of individual companies.
(2) Less than $500,000 (+/–).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

JAMAICA

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000[1]
Income, Production and Employment:			
Nominal GDP	6,490.0	6,529.1	6,600.0
Real GDP Growth (pct)[2]	–0.5	–0.4	0.5
GDP (at Current Prices) by Sector:.			
Agriculture, Forestry and Fishing	505.6	463.5	N/A
Mining and Quarrying	306.8	290.0	N/A
Manufacturing	970.7	979.1	N/A
Construction and Installation	714.4	730.5	N/A
Electricity and Water	221.1	256.2	N/A
Transportation, Storage and Communication	708.8	735.0	N/A
Retail Trade	1,457.1	1,423.1	N/A
Real Estate Services	409.7	421.7	N/A
Government Services	846.8	865.6	N/A
Finance	469.3	547.4	N/A
Other	319.2	333.4	N/A
Per Capita GDP (US$)	2,535	2,531	2,538
Labor Force (000s)	1,128.6	1,119.1	N/A
Unemployment Rate (pct)	15.5	15.7	16.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) Dec.–Dec.	7.2	19.2	2.7[3]
Consumer Price Inflation	7.9	6.8	9.0
Exchange Rate (JD/US$)	36.68	39.33	43.5
Balance of Payments and Trade:			
Total Exports FOB	1,316.3	1,238.0	1,361.8
Exports to United States	521.3	441.0	465.0
Total Imports CIF	3,029.4	2,892.8	3,240.0
Imports from United States	1,545.7	1,383.7	1,453.0
Trade Balance	–1,713.1	–1,654.8	–1,878.2
Balance with United States	–1,024.4	–942.7	–988.0
External Public Debt[4]	3,306.4	3,024.1	3,003.8
Fiscal Balance/GDP (pct)[5]	–7.3	–4.3	–1.0
Current Account Deficit/GDP (pct)	3.9	4.2	N/A
Debt Service Payments/GDP (pct)	9.8	9.2	N/A
Net Official Reserves[6]	579.4	446.3	935.4
Aid from United States[7]	16.9	19.2	18.2
Aid from All Other Sources[8]	149.7	143.0	N/A

[1] 2000 figures are all estimates based on available monthly data as of September 2000.
[2] Growth rate is based on Jamaican dollars whereas nominal GDP is shown in U.S. dollars.
[3] Jan-June 2000
[4] Figure as of Aug. 2000.
[5] Jamaican fiscal year (April-March).
[6] Figure based on Aug 2000.
[7] Estimates include development, food, and military assistance for FY98, FY99 and FY00.
[8] Estimated commitments for development assistance from Jamaica's cooperation partners (bilateral and multilateral).

1. General Policy Framework

Jamaica is an import-oriented economy. Imports of goods and services totaled US$3.91 billion or 60 percent of GDP in 1999. Of this total, raw materials amounted to US$1,462 million, while consumer goods and capital goods amounted to US$961 million and US$470 million respectively. Tourism (estimated at 15 percent of GDP), bauxite/alumina (10 percent of GDP), and manufacturing exports (such as apparel, processing of sugar, beverages and tobacco, etc.: 17 percent of GDP) are the major pillars sustaining the economy. In 1999 these three sectors accounted for about 78 percent (US$2.57 billion) of the country's exports of goods and services. Remittances from Jamaicans living abroad are also a significant source of income and bring in over US$600 million annually. Both GDP and foreign exchange inflows are sensitive to changes in the global economy, particularly with respect to commodity prices and the services/tourism sector.

Jamaica has a work force of 1.12 million, representing 63 percent of total population 14 years and over. Women account for 45.3 percent of the total labor force.

62 percent of Jamaica's work force is employed in the services sector, contributing about 70 percent of GDP in constant 1986 dollars. Agriculture accounts for 7.4 percent of GDP and employs 21 percent of the workforce. The primary agricultural products are sugar, bananas, coffee and cocoa. The small size of the Jamaican economy, relatively high production costs (e.g., high domestic interest rates) and inexpensive imports have reduced the contribution of the manufacturing sector over the last several years to about 17 percent of GDP in 1999. The once fast growing apparel industry began to contract in the mid-1990s. Current employment in the sector is down to approximately 18,000, a decline of 48.5 percent from its peak in 1995.

GDP contracted for the fourth consecutive year in 1999, by 0.4 percent to US$6.5 billion, valued in 1986 prices. In 1996 GDP declined 1.3 percent, by 2.0 percent in 1997 and 0.5 percent in 1998. Domestic output has been impeded since 1996 by the aftermath of the financial crisis of that year, by the government's restrictive macroeconomic policies and by a deteriorating trade balance. High unemployment and high borrowing costs have constrained private and government spending.

The year 2000 seems likely to be characterized by marginal growth, perhaps marking the start of a slow recovery. The bullish performance of the Jamaican stock market, positive investment boosted by price stability and falling interest rates, further industrial rehabilitation and retooling, privatization of government assets, growth in information technology, expansion in bauxite/alumina industry and tourism will contribute to the recovery. However, Jamaica's economy remains vulnerable to developments overseas as both tourism and the bauxite/alumina industry, the main pillars of the economy, depend on foreign markets. Prospects for the important agricultural sector are dimmed this year by drought and by the phaseout of preferential trade arrangements (e.g., for bananas) with the European Union. Rising energy costs and fiscal restraint imposed on the government by high debt-service requirements also potentially limit economic expansion.

High unemployment and underemployment as a result of the prolonged economic recession is a serious problem. According to the recent Jamaica survey of living conditions, the poverty rate in 1999 grew by one percentage point to 16.9 percent over 1998.

The Jamaican government's three-year program to rescue the banking and insurance sector following the 1996 financial collapse is in its final stages. The financial sector adjustment company (FINSAC), the government agency established in February 1997 to provide funding and to reorganize illiquid financial institutions, is now in the last phase of restructuring and selling the assets of these institutions. FINSAC's total obligations amount to over US$2.5 billion, but the agency is now in the process of aggressively selling off its assets, in order to reduce this amount before passing on the remainder to the government budget. Recent reports indicate that FINSAC may be able to recoup less than a quarter of the original paper value of the assets that it acquired. The government also plans to use a US$325 million financial sector loan from three development banks to further reduce FINSAC's obligations.

The Jamaican government's fiscal year (JFY) April 2000-March 2001 budget calls for JD167.4 billion in outlays. This is a 6.2 percent increase over the revised 1999/00 budget. For JFY2000/01, recurrent expenditure is estimated at JD95.5 billion and capital expenditure at JD71.8 billion. Debt servicing is by far the largest expenditure category, accounting for 58.2 percent of the total budget, followed by: social and community services (18.2 percent); general government services (8.5 percent); economic development (7.6 percent); defense affairs, public order and safety (5.9 percent); and miscellaneous expenditures (1.6 percent).

The Jamaican government expects to finance about two thirds of the JD167.4 billion in expenditures through a projected total revenue of JD108.3 billion: recurrent revenue; tax and non-tax; capital revenue (royalties, land sales, loan repayments, divestments); and transfers from the capital development fund (including the bauxite levy). The balance will come from debt: external, JD18.1 billion (or 30.6 percent of the total deficit) and internal, JD38.2 billion.

The Bank of Jamaica (BOJ) continues to reduce excess liquidity through the reverse repurchase of treasury bills ("repos"), (i.e. sale of securities with an agreement to buy back on a later date at a given rate). The BOJ's open market operations are one means by which the government of Jamaica funds its fiscal deficit. The BOJ and Jamaican government continued its tight monetary policy to absorb excess liquidity by issuing long-term securities (local registered stock) and short-term treasury bills.

The BOJ has lowered its cash reserve requirement for commercial banks from 25 percent in August 1998 to 13 percent in September 2000. However, commercial banks have been slow to respond by lowering their lending rates. The banks blame the number of nonperforming loans carried on their books.

2. Exchange Rate Policy

Jamaica eliminated exchange controls a decade ago. The principal remaining restriction is that foreign exchange transactions must be done through a licensed authorized dealer or cambio. Any company or person required to make payments to the government by agreement or law (such as the levy and royalty due on bauxite) will continue to make such payments directly to the BOJ. Authorized dealers and cambios are required to sell five percent of their foreign exchange purchases directly to the BOJ. In addition, under an agreement between the Petroleum Company of Jamaica (PETROJAM) and the commercial banks, a further ten percent of foreign exchange purchases are sold to PETROJAM. This rate is likely to go up in order to meet increased energy costs.

In 1999 total foreign exchange inflows through commercial banks and cambios increased marginally over 1998, by 0.5 percent to US$3.62 billion. From January to August 1999, foreign exchange inflows into the official market increased by 28.5 percent over the corresponding period in 1999 to US$3 billion. The average weighted selling rate slipped about ten percent in the first nine months of 2000, to JD45.00 to US$1.00 by the end of September. This decline is the result of increased demand for foreign exchange, reflecting rising energy prices, attractive returns on forex-fixed deposits and speculation. There is a broad perception in the market that the Jamaican dollar is at least somewhat overvalued. However, the Jamaican government is committed to defending the exchange rate within a targeted band through the BOJ's intervention.

3. Structural Policies

In general, prices are freely determined. However, certain public utility charges such as bus fares, water, electricity, and telecommunications remain subject to price controls and can be changed only with government approval. The Fair Competition Act provides for an environment of free and fair competition and consumer protection.

Taxation accounts for 82 percent of total recurrent and capital revenue. Major sources of tax revenue include: personal income tax (37.3 percent of tax revenue), value added tax (28.8 percent), special consumption tax (10.9 percent) and import duties (10.8 percent). The budget continues to stress a tight monetary policy, intended to curb inflation. The government proposes covering the growing budget deficit by a combination of increased taxes (such as withholding tax on interest earned, restriction of income tax relief on gratuity payments), higher fees (e.g., warehouse fees), divestment proceeds and by borrowing.

The Common External Tariff (CET) is being gradually reduced. In January 1999 the last phase of CET reduction was implemented in Jamaica with import or customs duty rates reduced for most items to a maximum of 20 percent. This figure refers to import duties only. In order to protect local producers, import duties on items such as certain agricultural products (such as chicken, beef and milk) and certain consumer goods carry higher duty rates. In addition to import duties, certain items such as beverages and tobacco, motor vehicles and some agricultural products carry an additional stamp duty (ranging from 25 to 63 percent) and special consumption tax (ranging from 5 to 39.9 percent). Further, most imported items are subject to the 15 percent General Consumption Tax (GCT). Goods originating from CARICOM countries are not subject to import duties.

Effective FY 2000, the responsibility for the procurement of commodities under government to government agreements such as the p.l. 480 program is transferred to the trade board. The U.S. Embassy is unaware of any government regulatory policy that would have a significant discriminatory or adverse impact on U.S. exports.

4. Debt Management Policies

Jamaica's stock of external (foreign) debt declined by 8.5 percent to US$3 billion in 1999 following a marginal growth by one percent in 1998, to JD3.3 billion. About 46 percent of the external debt is owed to bilateral donors (of which the United States is the largest), 33 percent to multilateral institutions (low, due to a policy decision to reduce dependence on the IMF), five percent to commercial banks and the balance of 15 percent through other (e.g. bond issue). According to the BOJ, the British government granted debt relief under the UK/Jamaica Commonwealth Debt Initiative arrangement for the period April 1, 1999 to March 31, 2001 amounting to 5.4 million pounds sterling and for the period April 2000 to March 2003 amounting to 11.4 million pounds sterling. External debt is likely to remain flat during the year 2000. The BOJ states that it will not raise new external debt above amortization levels. Further, although the bulk of the external debt consists of flows from multilateral and bilateral sources, there has been a growing shift to debt owed to private creditors (largely bond holders).

Debt-service continues to be the single greatest category in the government budget, accounting for some 58 percent of total outlays in FY 2000/2001. Actual external debt-servicing during 1999 accounted for 18.4 percent of exports of goods and services. The ratio of total outstanding external debt to exports of goods and services decreased to 86.8 percent in 1999 as a result of debt reduction efforts and improvements in exports. Although Jamaica ended its borrowing relationship with the IMF in 1995, it continues to repay that institution, thus reducing its overall debt burden. Jamaica reached an agreement with the Fund on a Staff-Monitored Program (SMP), under which IMF staff will work with the GOJ to monitor compliance with a mutually agreed upon, medium-term economic program. The SMP entails no borrowing from the Fund.

The Jamaican government recently negotiated a US$325 million financial-sector loan from three development banks: the World Bank, the IDB and the Caribbean Development Bank. The funds will be used to reduce the total obligations of FINSAC. If the loan is approved as expected, Jamaica expects to receive the first tranche during the last quarter of 2000.

While external debt has declined somewhat, Jamaica's internal (domestic) debt has ballooned in recent years, from JD77.7 billion in 1996 to JD176.7 billion in 1999. As of July 2000, the internal debt stood at JD189.2 billion. The main factors explaining this rising domestic debt are the government's need to finance FINSAC's rescue of the banking and insurance sector and its simultaneous inability to access overseas financial markets. Domestic debt is composed of government securities such as: T-Bills (6 percent), local registered stock (74.1 percent), bonds (18.2 percent), and loans from commercial banks and other entities (1.7 percent).

The Jamaican government has outlined medium-term strategies to manage the debt problem that include: renegotiating and refinancing domestic debt, lowering interest rates, reducing the volume of domestic debt and accessing external capital markets for additional funds.

5. Aid

Jamaica is categorized as a middle income country. In 1999 Jamaica received US$97.2 million of official development assistance (for new projects) from both multilateral and bilateral sources, a drop of almost 50 percent over 1998. Bilateral sources contributed US$20.9 million, while multilateral financial institutions contributed loans and grants valued at US$75.4 million. These declining assistance levels reflect a shift by donor countries and institutions of their limited resources to assist the least-developed countries.

The United States is a major aid donor. In FY 2000, US$12.17 million was disbursed as development assistance, US$5 million under pl 480 program, and another US$1.04 million as military assistance. In addition, there were 112 Peace Corps personnel who provided technical assistance in the areas of health, education, environment and small business development.

6. Significant Barriers to U.S. Exports

Import Licenses: Although Jamaica has made considerable headway in trade liberalization, some items still require an import license, including: milk powder; plants and parts of plants for perfume or pharmaceutical purposes; gum-resins, vegetable saps and extracts; certain chemicals; motor vehicles; arms and ammunition; certain toys, such as water pistols; and gaming machines.

Services Barriers: Foreign investors are encouraged to invest in almost any area of the economy. On September 30, 1999 the Jamaican government and Cable and Wireless of Jamaica, Ltd. signed the "New Connections" Agreement to end the monopoly rights previously granted until 2013 and will help phase-out Cable and Wireless' telecoms monopoly over the course of three years (i.e., by 2003). However, there are still certain restrictions in the communications field: under the new cable television policy, preference in granting licenses is given to companies that are incorporated in Jamaica and in which majority ownership and controlling interest are held by Jamaican or Caribbean Common Market member-state nationals. The U.S. Embassy is not aware of any other economic or industrial strategies that have discriminatory effects on foreign-owned investments.

Standards, Testing, Labeling, and Certification: The Jamaican Bureau of Standards administers the Standards Act, the Processed Food Act and the Weights And Measures Act. Products imported into Jamaica must meet the requirements of these acts. These include labeling requirements. Items sold in Jamaica must conform to recognized international quality specifications. In most cases, Jamaica follows U.S. standards. In recent years, the bureau has become increasingly vigilant in terms of monitoring the quality of products sold on the local market. As of September 14, 2000, the Customs Department has started to collect a new standards compliance fee of 0.3 percent of CIF from importers on behalf of the Bureau of Standards. The quarantine division inspects and determines standards in the case of live animals. Meat imports may be inspected by the Ministry of Health. Imported goods are expected to conform to the metric system.

Investment Barriers: The Government of Jamaica welcomes foreign investment and there are no policies or regulations reserving areas exclusively to Jamaicans. Foreigners are not excluded from participation in privatization/divestment activities. While each investment proposal is assessed on its own merits, investments are preferred in areas which may increase productive output, use domestic raw materials, earn or save foreign exchange, generate employment, or introduce new technology. The screening mechanisms are standard and nondiscriminatory. The main criterion is the credit-worthiness of the company. Environmental impact assessments are required for new developments. Both foreign and domestic companies complain that "red tape" is an obstacle to doing business, but foreign investors are not treated differently than domestic investors, either before or after investment.

Government Procurement Practices: Government procurement is generally done through open tenders. U.S. firms are eligible to bid. The range of manufactured goods produced locally is relatively small, so instances of competition between foreign goods and domestic manufacturers are very few. A National Contracts Commission (NCC) was set up in October 1999 to oversee the award and evaluation of government contracts. The NCC replaced the government's Contracts Commission, and is the central body responsible for awarding government contracts.

Customs Procedures: There is an ongoing program of modernization of the Customs Department. The Customs Department has recently been computerized. As of September 1999, all customs entries are being processed electronically in order to facilitate brokers and other customers. However, some of the local brokers are experiencing delays and difficulty in clearing goods due to inadequate staffing and administrative problems at customs.

Anti-Dumping Laws: On July 1, 1999 the Jamaican government implemented the Amended Customs Duties, Dumping and Subsidies Act. Among other things the act establishes an anti-dumping and subsidies commission, the imposition of anti-dumping and countervailing duties on goods which are found to have been dumped or subsidized and the exemption of goods from the application of the act based on Article VI of GATT.

7. Export Subsidies Policies

The Export Industry Encouragement Act (EIEA) allows approved export manufacturers access to duty-free imported raw materials and capital goods and exemption from income and dividend taxes for a maximum of ten years. However, in accordance with the WTO Agreement on Subsidies and Countervailing Measures, the incentives offered under the EIEA will be phased out by 2003. Other incentives are available from the Jamaican government's Export-Import Bank, including access to preferential financing through the discounting of export receivables (up to 80 percent of export value at 12 percent), lines of credit, medium term modernization fund (at 12 percent interest) and export credit insurance. A joint-venture loan program targeting small exporters was introduced in 1999 by the Jamaican Export-Import Bank (Ex-Im) and the Jamaica Exporters Association (JEA). The project, called Ex-Bed, is being financed by the Ex-Im Bank to the tune of JD10 million at an interest rate of 12 percent annually, to be repaid within 90 days, 120 days and 180 days respectively. JEA will provide technical and financial support through its small business export development project. In addition, effective September 2000, Ex-Im Bank will make an additional JD100 million available to exporters at 9.5 percent for short-term pre- and post-shipment working capital.

The Government of Jamaica has a Special Assistance Program (SAP) to improve competitiveness of the export apparel industry by encouraging companies to make structural changes and implement operational efficiencies. The SAP targets the reduction of operational costs, specifically in the areas of rent, security and financing. Phase two of the program, which has now been extended to March 2001, provides JD160 million (US$4.4 million) to encourage the broader development of the industry, particularly in those areas which will enhance long-term competitiveness.

8. Protection of U.S. Intellectual Property

The Jamaican constitution guarantees property rights and Jamaica has enacted legislation to protect and facilitate the acquisition and disposition of all property rights, including intellectual property. Jamaica is a member of the World Intellectual Property Organization (WIPO) and of the Bern Convention (copyright protection). Jamaica and the United States signed a bilateral intellectual property rights agreement in March 1994. In addition, the 1997 Bilateral Investment Treaty (BIT) also contains obligations to respect intellectual property.

Jamaican laws address major areas of intellectual property rights (IPR) protection. The Copyrights and Trade Mark Acts were amended in 1999. Amendments to the Copyright Act protect compilation works such as databases, and also grant protection to individuals having rights in encrypted transmissions or in broadcasting or cable program services, and a right of action against persons who knowingly infringe those rights for commercial gain. However, works already in the public domain in Jamaica would not be accorded protection. Remedies available include injunctions, damages, seizure and disposal/destruction of infringing goods. Penalties may include fines or imprisonment. Licensing is required for both broadcasts and subscription TV. To date, there are 37 cable and one wireless subscriber television licensees island-wide. However, there are reports of unlicensed cable operators conducting business illegally. The broadcasting commission states that it reports to the police evidence or information concerning illegal activity for enforcement. Further, as a step to cut down illegal activities, the application process of satellite television licenses has been reopened in order to facilitate persons or entities to operate legally. All licensees are required to receive permission from program providers before rebroadcasting. The government has launched a campaign to raise public awareness of IPR.

A bill on patents has been drafted and corrections are being made in consultation with WIPO. The office of the parliamentary counsel is completing the revised law, which the government expects to be passed before the end of 2001.

Litigation is a viable option in protecting intellectual property. In individual lawsuits in Jamaican courts, a number of U.S. corporations have successfully defended their names and service marks against trademark infringement. In September 1999 the U.S. company Costco International sued a local trading company for illegally using their name. The local company subsequently changed its name. In August 2000 Paymaster Jamaica Ltd. sued Bill Express for infringing on its exclusive rights to computer software.

9. Worker Rights

a. *The Right of Association:* The Jamaican constitution guarantees the rights of assembly and association, freedom of speech, and protection of private property. These rights are widely observed.

b. *The Right to Organize and Bargain Collectively:* Article 23 of the Jamaican constitution guarantees the right to form, join and belong to trade unions. This right is freely exercised. Collective bargaining is widely used as a means of settling disputes. Industrial actions (generally brief strikes) are frequently employed in both private and public sector disputes. The Labor Relations and Industrial Disputes Act (LRIDA) codifies regulations on worker rights. About 15 percent of the work force is unionized, and unions have historically played an important economic and political role in Jamaican affairs. The public sector is highly unionized. The government has worked to control civil service employee salaries and declared two separate strikes of essential public services employees illegal in 2000.

No free zone factory is unionized. Jamaica's largest unions claim this is because unionization is discouraged in the free zones. The ongoing contraction of the apparel industry and a lack of alternatives for its workforce (largely female heads of household, with minimal qualifications for other employment) are additional disincentives for unionization at the present time. However, in tourist areas, workers are often drawn away by more attractive employment opportunities in the local tourism sector.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is not practiced. Jamaica is a party to the relevant ILO conventions.

d. *Minimum Age For Employment of Children:* The Juvenile Act prohibits child labor, defined as the employment of children under the age of twelve, except by parents or guardians in domestic, agricultural, or horticultural work. Children are observed peddling goods and services, and there are scattered reports of children working in fishing villages. However, child labor is not institutionalized. Both government and societal views are intolerant of the practice and the use of child labor in formal industries such as textiles/apparel is virtually nonexistent.

e. *Acceptable Conditions of Work:* A 40-hour week with an 8-hour day is standard. Overtime and holiday pay are given at time-and-a-half and double time, respectively, except in the tourism industry. The minimum wage is JD1,200 for a 40-hour week or JD30 per hour; most workers are paid more, however. There are frequently additional allowances (e.g. for transportation, meals, clothing, etc.). Unemployment compensation or "redundancy pay" is included in the negotiation of specific wage and benefit packages. Jamaican law requires all factories to be registered, inspected and approved by the Ministry of Labor. Both scarce resources, and a narrow legal definition of the term "factory," combine to limit inspections.

f. *Rights In Sectors With U.S. Investment:* U.S. investment in Jamaica is concentrated in the bauxite/alumina industry, petroleum products marketing, food and related products, light manufacturing (mainly in-bond apparel assembly), banking, tourism, data processing, and office machine sales and distribution. Worker rights are respected in these sectors and most of the firms involved are unionized, with the important exception of the garment assembly firms. No garment assembly firms in the free zones are unionized; some outside the free zones are unionized. There have been no reports of U.S.-related firms abridging standards of acceptable working conditions. Wages in U.S.-owned companies generally exceed the industry average.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		([1])
Total Manufacturing		262
Food and Kindred Products	([1])	
Chemicals and Allied Products	([1])	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	6	
Wholesale Trade		266
Banking		14
Finance/Insurance/Real Estate		([1])
Services		46
Other Industries		([1])
TOTAL ALL INDUSTRIES		2,469

([1]) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

MEXICO

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP [2]	415.0	475.0	557.0
Real GDP Growth (pct) [3]	4.9	3.7	7.0
GDP by Sector:			
Agriculture	20.51	23.75	27.85
Manufacturing	83.26	100.22	117.53
Services	258.75	317.30	372.08
Per Capita GDP (US$)	4,294	4,974	5,223
Labor Force (millions)	37.5	39.7	41.1
Unemployment Rate (pct)	3.2	2.5	2.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	24.1	14.4	–0.3
Consumer Price Inflation	18.6	12.3	8.7
Exchange Rate (Peso/US$)	9.1	9.5	9.6
Balance of Payments and Trade:			
Total Exports FOB [4]	117.5	136.4	167.6
Exports to United States [4]	103.1	120.4	138.5
Total Imports FOB [4]	125.4	142.0	174.9
Imports from United States [4]	93.3	105.3	123.2

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Trade Balance [4]	–7.9	–5.6	–7.3
Balance with United States [4]	9.8	15.1	15.3
External Public Debt (net)	82.2	83.4	81.3
Fiscal Deficit/GDP (pct)	1.2	1.1	1.0
Current Account Deficit/GDP (pct)	3.7	2.9	3.2
Debt Service Payments/GDP (pct)	21.3	23.7	23.2
Gold and Foreign Exchange Reserves	30.1	30.7	31.0
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 2000 figures are estimates based on data available in October.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade, Mexican data.

1. General Policy Framework

Mexico has experienced uninterrupted economic growth since 1996. In the last four years, Mexico's real gross domestic product (GDP) rose at a 5.2 percent annual rate. Growth will reach approximately 7 percent in 2000. Mexico's economy may grow by about 4.5 percent next year.

Exports, led by the maquiladora industry, have remained Mexico's engine of growth. Mexico's exports totaled $136.4 billion in 1999 and may total $170 billion in 2000. Mexico's aggressive market opening through bilateral and multilateral trade agreements, including a Free Trade Agreement with the European Union, continues to create new markets for Mexican products, while allowing more foreign competition. Mexico's imports have been rising at an even faster rate than exports, and have reversed Mexico's trade surplus of earlier years. Mexico's trade deficit for 1999 totaled $5.6 billion and may rise to $7.3 billion by the end of 2000. Two-way trade with the United States, which has been growing 17.7 percent annually since 1994, totaled $225.7 billion dollars in 1999, and may reach $260 billion in 2000. (The trade data are from official Mexican sources).

In 1999 and 2000 the Bank of Mexico (Mexico's central bank) and the Mexican government adopted relatively tight and consistent monetary and fiscal policies, contributing to a decline in inflation without choking off real growth. The tight monetary policy was, in part, a response to concerns that Mexico's economy, which grew at an above-potential rate of 7.8 percent in the first half of 2000, was overheating and in danger of external imbalance. Specifically, the non-oil trade deficit was suggesting relatively high vulnerability to a downturn in the international price of oil or to a slowdown in U.S. growth. Real wage settlements were also very high, at about five percent, potentially putting pressure both on Mexico's international competitiveness and on domestic demand. It appears that the Bank of Mexico has tempered the imbalance for the moment and has successfully moved toward its inflation objectives of 9.0 percent in 2000 and 6.5 percent in 2001.

2. Exchange Rate Policy

Since December 1994, the peso has been floating freely, with only infrequent interventions by the Bank of Mexico. After losing about half of its value against the dollar in 1995, the peso was remarkably stable in 1996 and 1997. By the end of 1998, the peso had depreciated by about 20 percent, but strengthened in 1999 and by September 2000 had appreciated about 5 percent relative to the average of 1998. The central bank's restrictive monetary policy, coupled with a strong demand for Mexico's exports, largely explains the peso's real appreciation during the period. Mexico's oil exports took on added significance in 2000 because of high international oil prices throughout the year. The accumulated impact of these developments raised Mexico's perceived creditworthiness, which further bolstered the value of the peso.

3. Structural Policies

Mexico has pursued substantial deregulation of the economy over the past decade. The government introduced legislation in 1993 to promote competition and prohibit practices that restrain trade. The Mexican Federal Competition Commission, a product of that legislation, has functioned successfully for more than five years. During that period, among other accomplishments, it has provided useful oversight of the telecommunications and aviation industries through various rulings affecting

Telmex, Mexico's largest telecommunications company, and Cintra, the domestic airline monopoly. A change to the Foreign Trade Law in 1993 eliminated most nontariff trade restrictions and established remedies for unfair trade practices, such as export subsidies and dumping. The Mexican Customs Service has been modernized and automated. Mexican government efforts to reduce the number of government regulations continue apace. The Fox administration, which took office December 1, 2000, has indicated that it will pursue similar activities.

Mexican regulatory practices are not always sufficiently transparent, however. For example, the government sometimes distributes draft regulations for comment with little fanfare. Generally, such drafts are circulated informally to the major trade chambers and associations. While this practice allows large organizations with a local presence to submit comments, it does not provide the transparency associated with general publication, and hence can limit the ability of small and foreign entities to participate in the consultation process. Final regulations at times take effect the day after their publication. Such abrupt changes increase the burden of compliance for unsuspecting foreign entities and can cause confusion and delays at border crossing points.

The Government of Mexico has privatized or eliminated more than 1000 parastatal companies since 1986. It has privatized commercial banks, a telephone company, a television network, steel production plants, most railroads and ports, warehouses, and other major industrial facilities. Several firms, some of which are partly controlled by U.S. companies, now compete for the provision of long-distance telephone service in Mexico. Rearguard action by the dominant carrier, Telmex, has hindered the development of greater competition in this sector. A lack of strong regulatory control has led to legal struggles between Telmex and new market entrants in Mexico's telecommunications sector. These struggles have complicated the development of competition in this sector. (See "Telecommunications" in Section 5, below).

Mexico's airport privatization is nearly complete. Mexico's major airports have been divided into five geographic areas, including a separate private group for Mexico City's international airport. With the exception of Mexico City, each area is managed by a group of private investors. The Mexican government maintains control of a limited number of smaller airports in the interest of the public served by these regional facilities. In 1998 the government announced plans to sell up to 49 percent of its secondary petrochemical plants, despite opposition party resistance. Legislation to sell more than the currently authorized 49 percent equity share in such plants will probably be enacted in 2001. Throughout 1999 and 2000 multiple contracts were let for private sector construction of power plants and for the distribution of natural gas to strategically chosen communities. A proposed constitutional amendment that would allow more private sector participation in the generation and distribution of electricity has lingered in Congress since 1999, but the Fox administration has pledged to press for such legislation.

4. Debt Management Policies

Mexico has achieved the objectives of the emergency economic program developed to cope with the 1995 peso crisis. The maturity of Mexico's public debt was extended and its debt profile reconfigured. Mexico then returned successfully to the international capital market. In 2000 the oil revenue windfall from Mexico's oil exports reduced its recourse to the international capital market and allowed the Mexican government to pay off its debt to the International Monetary Fund and to liquidate some $7.9 billion in Brady bonds, ahead of time.

By the end of the third quarter of 2000, Mexico's net public external debt was $79.6 billion, a slight decrease from 1999. That year, amortization of public external debt totaled $22.1 billion. About $12.3 billion may be amortized in 2000.

5. Significant Barriers to U.S. Exports

Telecommunications: Foreign investment in most telecommunication services is limited to a 49 percent equity position. In cellular telephony and paging services foreign investors may participate up to 100 percent, subject to approval by the national foreign investment commission. Nevertheless, foreign investors may only participate through a Mexican corporation. Mexico modified its constitution in 1995 to allow for private participation and equity in Mexican telecommunication satellites, including ownership of transponders. The government's satellite firm was privatized in early 1998. Foreign investment is limited to a 49 percent equity position.

Telmex's legal monopoly on long distance and international telephone service ended in August 1996, and competition was introduced in January 1997. There is competition in all major cities and much of the rest of Mexico. Eight firms are authorized to provide long distance service; five of these have U.S. partners. USTR cited Mexico in its March 2000 annual "1377" review for failure to meet its WTO Basic Telecommunication Agreement commitments. USTR's concerns include a lack of proper regulation of the dominant carrier, Telmex, and failure of the regulator to provide for cost-based interconnection at all technically feasible points on Mexico's network, including cross-border interconnection and International Simple Resale. Local, basic telephone service is technically open to competition, but practical competition in this area has not developed.

As a result of U.S. concerns with trade barriers to competition in Mexico's $12 billion telecommunications market, in July 2000 the United States requested formal WTO consultations. The U.S. government highlighted three main areas where it contends that Mexico is in violation of the Basic Telecom Agreement: 1) lack of effective disciplines over the former monopoly, Telmex; 2) failure to ensure timely, cost-oriented interconnection that would permit competing carriers to connect to Telmex customers; and 3) failure to permit alternatives to an outmoded system of charging U.S. carriers above-cost rates for completing international calls into Mexico. While Mexico has made changes to its telecommunications regime (reduction of interconnection rates and promulgation of dominant carrier regulations), these changes have not gone far enough. In an October 20, 2000 letter following up on the WTO consultations, the U.S. government offered Mexico a list of four concrete steps it could take to demonstrate its seriousness in enforcing its regulations, protecting competition and abiding by its WTO obligations. However, Mexico failed to take any additional action; therefore, on November 8 the U.S. government announced its decision to seek a dispute resolution panel. Although some progress has been made, the U.S. government continues to believe that Mexico has not gone far enough towards resolving the dispute. How Mexico addresses these issues under the Fox Administration will determine whether or not the dispute is actually placed on the agenda of the WTO dispute settlement body.

Market Access: Mexico's administration of its 1999 and 2000 tariff-rate quota (TRQ) obligations for U.S. edible dry beans resulted in lost market opportunities for U.S. exporters due to delays in the auctioning of import permits, the high cost of permits, and the short time in which permits are valid. The United States has requested NAFTA consultations with Mexico concerning its dry bean TRQ.

The United States has raised its concerns regarding the manner in which Mexico has applied antidumping measures on a number of U.S. exports. The United States challenged a 1998 antidumping order on high fructose corn syrup proceedings in the WTO, and a panel ruled in February 2000 in favor of the United States. Mexico stated it would comply with the panel report by September 22, 2000 and published a revised final determination on September 20. In response to a request by the United States, on October 23 the WTO Dispute Settlement Body (DSB) agreed to form a panel to review whether Mexico's September 20 redetermination is inconsistent with the recommendations and rulings of the DSB.

Other important U.S. agricultural products on which Mexico has recently imposed final antidumping measures include U.S. hogs for slaughter, and cattle, beef and beef offal. The United States has held WTO consultations on the hogs matter. On December 11, 2000, Mexico initiated an antidumping case against U.S. long-grain white rice.

The Secretariat of Commerce and Industrial Development (SECOFI) requires import licenses for a number of commercially sensitive products. In 1998 SECOFI expanded the import licensing system by establishing an "automatic" import license for certain Asian and European products because of concerns about dumping and under-invoicing. While NAFTA-originated goods are exempt from these requirements, U.S. companies that obtain goods from covered countries may be affected by the requirements. The Secretariat of Agriculture requires prior import authorization for fresh/chilled and frozen meat. In 1998 the Secretariat of Health announced new import license rules for certain food products. These rules call for either an "advance sanitary import authorization" or "notification of sanitary import" prior to import of the product. Obtaining these permits requires extensive documentation and certification by the exporter. In addition, Mexico requires import licenses for sensitive products such as endangered species and weapons.

Financial Services: The financial services sector is generally open and liberalized. Rules adopted in 1995 allow foreign banks to acquire up to 100 percent ownership in existing banks that have less than six percent of the total capital in the banking system (effectively excluding Mexico's three largest banks). Legislation passed in December 1998 removed the 6 percent cap, allowing 100 percent ownership of any bank, although foreigners may not own more than 25 percent of the total net capital of the banking system. A single Mexican or foreign individual may own up to 20 percent of a given Mexican financial institution. As a group, foreigners may, in most cases, own up to 49 percent of a bank, stock brokerage house, or financial group.

Standards, Testing, and Certification: The extensive use of mandatory standards, testing and labeling is a potential barrier to trade and can raise the cost of exporting to Mexico. The Government of Mexico has displayed an increased willingness to work with U.S. industry to address U.S. concerns.

The government has been the primary actor in determining product standards, and labeling and certification policy, with input from the private sector. Mexican law requires that Mexican standards be based on "international standards." In rare cases Mexican standards will incorporate U.S. and Canadian standards when they differ from the international benchmark. The official Mexican government position is that only standards issued by ISO/IEC are international standards.

With increased transparency as one of its objectives, the Government of Mexico revised the Federal Law on Metrology and Standardization in May 1997. While the changes provided for privatization of the accreditation program and greater transparency, some Mexican ministries consider particular regulations to be executive orders that need not be published for comment. In some cases the Mexican government has refused to provide copies of draft regulations for U.S. industry review, as in the case of revised regulations under Mexico's health law. U.S. exporters of certain vitamins, nutritional supplements, and herbal remedies have reported that the revised regulations impede their supply to the Mexican market. These products are now classified as medicines or pharmaceuticals, which require inspection and approval of manufacturing facilities by the Mexican Ministry of Health in order to obtain a sanitary license. Mexican government officials have advised U.S. industry and government officials that their law does not allow them to conduct the required inspections and approvals for foreign-based facilities.

The Federal Law on Metrology and Standardization provides for the adoption of emergency mandatory standards to deal with exceptional and unforeseen circumstances that might result in irreversible situations. However, the emergency nature of some of these standards is questionable. In certain instances, Mexico has been less than diligent in providing opportunity for comment by its trading partners.

U.S. exporters have complained that standards are enforced more strictly for imports than for domestically produced products. Imports are inspected at the border, while domestic products are inspected randomly at the retail level. U.S. exporters have also complained of inconsistencies among ports of entry.

Mexico has more than 715 mandatory standards (NOMs), and the number increases weekly. Only 81 have been issued by SECOFI. The rest are from 8 other government agencies. Each agency has its own NOM compliance certification procedures. Only SECOFI and the Secretariat of Agriculture (for a limited subsector of its NOMs) have published their certification procedures. On February 29, 2000 SECOFI published new procedures to certify NOM compliance. They became effective on May 1, 2000. The new procedures apply only to SECOFI-issued NOMs, and allow foreign manufacturers from countries having trade agreements with Mexico to hold title to NOM certificates. The procedures allow expansion of the ownership of a NOM certificate to more than one importer. Prior practice required each importer to pay for a separate certificate, even if importing a product identical to that imported by another importer (this remains true for NOMs issued by government agencies other than SECOFI). In theory, the new procedures were designed to reduce the cost of export to Mexico, by eliminating redundant testing and certification. In practice, the product certification bodies have increased the cost of certification and are charging for expansion of ownership of a certificate. U.S. companies are thus not benefiting from the new procedures. U.S. companies have also reported that the certification laboratories are requiring that the products being tested and certified meet the rules of origin from a country with which Mexico has a free trade agreement, basically tying rules of origin to conformity assessment.

Under NAFTA, Mexico was required, starting January 1, 1998, to recognize conformity assessment bodies in the United States and Canada on terms no less favorable than those applied in Mexico. To date, no U.S. body has been recognized. The current Mexican government position to recognize additional certification bodies only on a "needs basis" raises serious concerns and is a strong indication that the existing product certification bodies will continue to monopolize the market.

In the spring of 2000, the Mexican government published changes to the Federal Administrative Procedure Law. The changes created a regulatory reform commission that must review all proposed regulations, amendments to laws, new laws, and standards, as well as regulatory impact statements for the same. The commission publishes a monthly list of documents received. The Mexican government touts the new commission as the guarantor of transparency in all regulatory matters. It is unclear, however, whether the commission will make proposed regulations available for comment, and whether government dependencies will respond to comments received.

On June 12, 2000 the Government of Mexico published an amendment to its animal health law, which generally sets sanitary inspection parameters for domestic meat production and meat imports. The new law did not change sanitary requirements, but did change the physical requirements for border inspection points. The new requirements were so strict that when the new law was implemented on August 10, 2000, only 8 of 28 points of inspection were in compliance, resulting in the closure of several border-crossing points to meat imports. Since then, a number of inspection points have reopened under court injunctions, resulting in 17 currently operating points of inspection. While there have been some delays in border crossings, meat imports continue to flow into Mexico. However, if the Government of Mexico does not adjust its resources to provide more inspectors at the authorized points of inspection, or to open additional points, there could be significant disruption of trade. Mexican importers have proposed changes to the law, but no action is expected before the new administration takes office on December 1, 2000.

Investment Barriers: A national foreign investment commission decides questions of foreign investment in Mexico. The country's constitution and Foreign Investment Law of 1992 reserve certain sectors to the state, such as oil and gas extraction and electric power transmission, and other activities to Mexican nationals (for example, forestry exploitation, and domestic air and maritime transportation.) Only Mexican nationals may own gasoline stations. Gasoline is supplied by PEMEX, the state-owned petroleum monopoly. These gasoline stations sell only PEMEX lubricants, although other lubricants are manufactured and sold in Mexico.

Despite the restrictions mentioned above, the Foreign Investment Law of 1992 eliminated the requirement of government approval of much foreign investment. Mexico allows private ownership and operation of electric power generating plants. The government is encouraging private sector participation in the transportation, distribution, and storage of natural gas. But the government's effort to privatize the country's secondary petrochemical complexes has not succeeded because it limits foreign investors to 49 percent ownership of existing facilities. Foreign investors may hold all of the equity of newly built petrochemical plants. Foreigners may invest in railroads and telecommunications, including satellite transmission.

NAFTA also opened Mexico to greater U.S. and Canadian investment by assuring U.S. and Canadian companies national treatment, the right to international arbitration, and the right to repatriate funds without restrictions. NAFTA eliminated barriers to investment in Mexico, such as trade balancing and domestic content requirements. Such barriers are being phased out in key sectors such as automobile manufacturing.

Investment restrictions still prohibit foreigners from owning residential real property within 50 kilometers of the nation's coasts and 100 kilometers of its borders. Foreigners may acquire the effective use of residential property in the restricted zones via a trust through a Mexican bank. Foreigners and Mexican nationals encounter problems at times with the lack of enforcement of property rights. American citizen residents of a Baja California beach resort were forced to evacuate their homes when the Mexican Supreme Court ruled the sale of the property had not been handled properly.

Government Procurement Practices: There is no central government procurement office in Mexico. Government agencies and public enterprises use their own purchasing offices to buy from qualified domestic or foreign suppliers, subject to two procurement laws that became effective in March 2000. Both laws acknowledge Mexico's procurement obligations under NAFTA and other international agreements. Regulations under the two new laws were to have been in place by July but had not been issued by November. Mexico abandoned in 1991 the requirement that state-owned enterprises give preference in procurement to national suppliers. Suppliers from all countries may bid on most government tenders, and requirements for participation are the same for foreign and domestic suppliers. Because NAFTA allows some smaller contracts for goods, services or construction to be let without requiring them to be open to suppliers from all NAFTA countries, the procurement laws continue to distinguish between procurement open to national versus international suppliers. Some companies have complained that Mexican government agencies do not always follow the procedural procurement requirements established by NAFTA. For example, a number of bid requests have required bid submission in less than the 40 days established by NAFTA.

NAFTA gradually increases U.S. suppliers' access to the Mexican government procurement market, including PEMEX and the Federal Electricity Commission (CFE), which are the two largest purchasing entities in the Mexican government. Under NAFTA, Mexico immediately opened 50 percent of PEMEX and CFE bids to competition by suppliers from NAFTA parties. Each year, that percentage will increase until all PEMEX and CFE bids that are above the NAFTA value threshold are open to goods and suppliers from NAFTA Parties. PEMEX and CFE procurement will be fully open by 2004. However, specific preferential treatment in public procurement is granted to domestic pharmaceutical suppliers, including foreign companies established in Mexico.

Customs Procedures: In 1996 Mexico enacted a new Customs Law that simplified procedures. The law transferred some operations to private sector customs brokers, who are subject to sanctions if they violate customs procedures. As a result, some brokers have been very restrictive in their interpretation of Mexican regulations and standards. In an attempt to combat under-invoicing and other forms of customs fraud, Mexican Customs maintains (and in some cases has significantly expanded) measures that can impede legitimate imports, including an industry sector registry and estimated prices.

To be eligible to import well over 400 different items, including agricultural products, textiles, chemicals, electronics and auto parts, Mexican importers must apply to the Secretariat of Finance and Public Credit (Hacienda) and be listed on a special industry sector registry. U.S. exporters complain that the registry requirement sometimes causes costly customs clearance delays when new products are suddenly added to the list of subject items, with no grace period for new applicants. They also report that certain importers have been summarily dropped from the registry without prior notice or subsequent explanation, effectively preventing them from shipping goods to Mexico.

Mexico uses estimated prices for customs valuation of a wide range of products imported from the United States and other countries, including agricultural products, beer, chemicals, wood, paper, textiles, apparel, toys, tools and appliances. On October 1, 2000 the Mexican government implemented a burdensome new surety system for goods subject to these prices. Since that date, importers can no longer post a bond to guarantee the difference in duties and taxes if the declared value of an entering good is less than the official estimated price. Instead, they must deposit the difference in cash at a designated Mexican financial institution or arrange one of two alternative sureties (a trust or line of credit). The cash is not returned for six months, and then only if the Mexican government has not initiated an investigation and if the supplier in the country of exportation has provided an invoice certified by its local chamber of commerce. U.S. exporters have long complained that estimated pricing under Mexico's old surety system unfairly restricted trade, but implementation of the cash deposit requirement has created significant additional costs. Indeed, Mexican banks charge as much as $1,500 to open cash accounts and $250 for each transaction.

6. Export Subsidies Policies

The government does not have an export subsidy program. Provisions for promoting exports in the Foreign Trade Law have been limited to training and assistance in finding foreign sales leads, project financing (at market rates) for export oriented business ventures, and special tax treatment for companies that have significant export sales.

7. Protection of U.S. Intellectual Property

Mexico is a member of the major international organizations regulating the protection of Intellectual Property Rights (IPR): the World Intellectual Property Organization (WIPO), the Geneva Convention for the Protection of Producers of Phonograms against Unauthorized Duplication of their Phonograms; the Bern Convention for the Protection of Literary and Artistic Works (1971); the Paris Convention for the Protection of Industrial Property (1967); the International Convention for the Protection of New Varieties of Plants; the Universal Copyright Convention; and the Brussels Satellite Convention.

Mexico has implemented NAFTA obligations providing for nondiscriminatory national treatment of IPR, by establishing minimum standards for protection of sound recordings, computer programs, and proprietary data, and by providing express protection for trade secrets and proprietary information. The term of patent protection is 20 years from the date of filing. Trademarks are granted for 10-year renewable periods. The government continues to strengthen its domestic legal framework for protecting intellectual property. In 1997 it implemented a new copyright law and amended its penal code to strengthen penalties against copyright piracy. In 1999 it again modified its penal code for copyright and trademark piracy, classifying them as felonies and increasing penalties. Mexico passed a law in 1996 providing protection to plant species, and in 1998 provided protection for integrated circuits. Mexico is also a signatory to the WIPO treaty on copyright, which the United States considers positive, especially because of the additional protection afforded for digital works.

The United States and Mexico review progress on IPR issues in biannual consultative meetings. During 2000 the United States and Mexico consulted on IPR in April in Dallas, and in October in Guadalajara. As a result of the progress Mexico has made on IPR matters, Mexico no longer appears on the "Special 301" Watch List. However, the United States is still concerned about and monitors closely the continuing high level of piracy and counterfeiting in Mexico. Mexican law enforcement agencies have conducted hundreds of raids on pirates. The government showed its commitment to combating piracy on August 25, 2000, when 1,200 police officers raided Tepito, a notorious Mexico City haven for pirates, and arrested over 30 individuals. However, all were released the next day, highlighting the lack of IPR judicial enforcement. According to the Mexican Federal Prosecutor's Office, as of October 10, 2000, 109 individuals were in custody on IPR charges. The U.S. government is aware of one piracy conviction in 1998, but none since then.

Besides combating the continuing high piracy levels in Mexico, the United States wants Mexico to improve its protection of test data held by patent holders from use by "second comer" companies seeking permission to market drugs. The United States is also concerned that the Mexican Copyright Law is not fully compliant with NAFTA and the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights and is consulting with Mexico on how to address the deficiencies.

Mexico's major IPR concern with the United States is protection of the trademark name "Tequila" from inappropriate use.

8. Worker Rights

a. *The Right of Association:* The constitution and the Federal Labor Law (FLL) give workers the right to form and join trade unions of their own choosing. Mexican trade unionism is well developed; about 25 percent of the work force are unionized. Although no prior approval is required to form unions, they must register with the Federal Labor Secretariat or state labor boards to gain legal status. Federal or state authorities use this administrative procedure to withhold registration from groups considered disruptive to government policies, employers, or unions. Union registration was the subject of follow-up activities in 1996, 1997, 1998, 1999, and 2000, pursuant to a 1995 agreement reached in ministerial consultations under the North American Agreement on Labor Cooperation (the NAFTA labor side agreement).

Unions, federations, and labor centrals freely affiliate with international trade union organizations. The FLL protects labor organizations from government interference in their internal affairs. The law permits closed shop and exclusion clauses, allowing union leaders to vet and veto new hires and force dismissal of individuals the union expels. Such clauses are common in collective bargaining agreements. Again in 1999 the committee of experts of the International Labor Organization (ILO) found that such restrictions violate freedom of association, and asked the Mexican government to amend these provisions. A 1996 Mexican Supreme Court decision invalidated similar restrictions in the laws of two states, and in 1999 the same court ruled that public sector entities could not require that only one union represent workers.

Most labor confederations, federations and separate national unions are still allied with the Institutional Revolutionary Party (PRI), which governed Mexico for 71 years, until December 2000. Union officers help select, run as, and campaign for PRI candidates in federal and state elections, and have supported PRI government policies at crucial moments. This generally gave the unions some influence on government policies, but limited their freedom of action. Rivalries within and between PRI-allied organizations have been strong. Although the benefits of labor's special relationship with the PRI and the government have been decreasing in recent years, the PRI's loss of the presidency in July 2000 will be the real test of the relationship. A smaller number of labor federations and independent unions are not allied to the PRI.

b. *The Right to Organize and Bargain Collectively:* The FLL strongly upholds this right. The public sector is almost totally organized. Industrial areas are also heavily organized. The law protects workers from antiunion discrimination, but enforcement is uneven. As many as 90 percent of contracts registered are signed without the knowledge or approval of the workers. Independent unions have often encountered obstacles to recognition, especially by local labor boards. Industry or sectoral agreements carry the weight of law in some sectors and apply to all sector firms, unionized or not, though this practice is becoming less common. The FLL guarantees the right to strike. On the basis of interest by a few employees, or a strike notice by a union, an employer must negotiate a collective bargaining agreement or request a union recognition election. In 1995, at union insistence, annual national pacts negotiated by the government and major trade union, employer, and rural organizations ceased to limit free collective bargaining, as had been the case for the previous decade. The government, major employers, and unions meet periodically to discuss labor relations under the "new labor culture" mechanism. The government remains committed to free collective bargaining without guidelines or interference.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced labor, and none has been reported for many years.

d. *Minimum Age for Employment of Children:* The FLL sets 14 as the minimum age for employment, and children under 16 may work only six hours a day, with prohibitions against overtime, night labor, and performing hazardous tasks. Enforcement is reasonably good at medium and large companies but is inadequate at small companies and in agriculture and is nearly absent in the informal sector. The ILO reports 18 percent of children aged 12 to 14 work, often for parents or relatives. Most child labor takes place in the informal sector (for myriad street vendors and in thousands of family workshops) and in agriculture. Although enforcement is spotty, the government formally requires that children attend a minimum of nine years of school and may hold parents legally liable for their children's nonattendance. The government has a cooperative program with UNICEF to increase educational opportunities for youth.

e. *Acceptable Conditions of Work:* The FLL provides for a daily minimum wage set annually, usually effective January 1, by the tripartite (government/labor/employers) National Minimum Wage Commission. Any party may ask the commission to reconvene to consider a special increase. In December 1999 the commission adopted a 10 percent increase. In Mexico City and nearby industrial areas, Acapulco, southeast Veracruz state's refining and petrochemical zone, and most border areas, the daily minimum wage has been 37.90 pesos ($4.10 in late September 2000). However, daily minimum wage earners actually are paid 43.21 pesos, due to a 14 percent supplemental fiscal subsidy (tax credit to employers). Approximately 16 percent of the labor force earn the daily minimum wage or less. Industrial workers, under collective bargaining contracts, tend to average three to four times the daily minimum wage.

The law and collective agreements also provide extensive additional benefits. Legally required benefits include social security, medical care and pensions, individual worker housing and retirement accounts, substantial Christmas bonuses, paid vacations, profit sharing, maternity leave, and generous severance packages. Employer costs for these benefits run from 27 percent of payroll at small enterprises to over 100 percent at major firms with strong union contracts. Eight hours is the legal workday and six days the legal workweek. Workers who are asked to exceed three hours of overtime per day or work overtime on three consecutive days receive triple the normal wage for the overtime. For most industrial workers, especially under union contract, the true workweek is 42 hours with seven days' pay. This is why unions jealously defend the legal ban on hiring and paying wages by the hour.

Mexico's Occupational Safety and Health (OSH) laws and rules are relatively advanced. Completely revised regulations were published in 1997. Employers must observe "general regulations on safety and health in the work place" (which reflects close NAFTA consultation and cooperation) issued jointly by the Labor Secretariat (STPS) and the Social Security Institute (IMSS). FLL-mandated joint labor-management OSH committees at each plant and office meet at least monthly to review workplace safety and health needs. Individual employees or unions may complain directly to STPS/OSH officials; workers may remove themselves from hazardous situations without reprisal and bring complaints before the Federal Labor Board at no cost. STPS and IMSS officials report compliance is reasonably good at most large companies, though federal and state inspectors (fewer than 700 nationwide) are stretched too thin for effective comprehensive enforcement. There are special problems in construction, where unskilled, untrained, and poorly educated transient labor is common.

f. *Rights in Sectors with U.S. Investment:* Conditions do not differ from those in other industrialized sectors of the Mexican economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount
Petroleum	188
Total Manufacturing	18,861

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999—Continued

[Millions of U.S. Dollars]

Category	Amount	
Food and Kindred Products	5,257	
Chemicals and Allied Products	3,037	
Primary and Fabricated Metals	511	
Industrial Machinery and Equipment	(1)	
Electronic and Other Electric Equipment	(1)	
Transportation Equipment	4,278	
Other Manufacturing	4,198	
Wholesale Trade		1,167
Banking		1,182
Finance/Insurance/Real Estate		6,308
Services		1,303
Other Industries		5,257
TOTAL ALL INDUSTRIES		34,265

(1) Suppressed to avoid disclosure of data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

NICARAGUA

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000[1]
Income, Production and Employment:			
Nominal GDP[2]	2,126.2	2,267.9	2,381.3
Real GDP Growth (pct)[2 3 4]	4.1	7.0	5.0
GDP by Sector:[2]			
Agriculture[4]	601.7	630.5	657.2
Manufacturing	542.2	607.8	643.0
Services[5]	822.3	873.1	933.4
Government	159.5	154.2	147.6
Per Capita GDP (US$)	442.0	459.0	470.1
Labor Force (000s)	1,661.3	1,728.9	1,799.1
Unemployment Rate (pct)	13.2	10.7	10.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	18.0	26.3	10.0
Consumer Price Inflation (pct)[1]	18.5	7.2	10.0
Exchange Rate (Cordobas/US$ - annual average)			
Official	10.6	11.8	12.5
Parallel	10.6	11.9	12.6
Balance of Payments and Trade:			
Total Exports FOB[6]	573.2	543.8	663.4
Exports to United States[7]	453.0	493.0	603.2
Total Imports CIF[6]	–1,383.6	–1,683.2	–1,691.2
Imports from United States[7]	–337.0	–374.0	–378.4
Trade Balance[6]	–810.4	–1,139.4	–1,027.8
Balance with United States[7]	116.0	119.0	224.8
External Public Debt (US$ bns)[8]	6.3	6.5	6.7
Fiscal Deficit/GDP (pct)	2.9	11.9	3.0
Current Account Deficit/GDP (pct)	38.5	47.3	46.0
Debt Service Payments/GDP (pct)	10.0	6.8	7.1
Gold and Foreign Exchange Reserves[9]	305.8	356.8	332.0
Aid from United States[10]	27.0	70.0	157.0
Aid from All Other Sources[11]	306	326.4	N/A

[1] Most 2000 figures are Central Bank projections based on data available in September 2000.
[2] GDP data is based on Embassy projection.

[3] Percentage changes calculated in local currency.
[4] Includes livestock, fisheries, and forestry.
[5] Includes construction and mining.
[6] Merchandise trade.
[7] Source: U.S. Department of Commerce; 2000 figures are estimates based on trade datathrough July 2000.
[8] Source: Central Bank. World Bank figures indicate $6.0 billion for 1998 and project $4.9 and $5.2 billion for 1999 and 2000.
[9] Source: Central Bank figure from May 2000.
[10] Source: Embassy estimate of assistance from AID, USDA, and U.S. military for Hurricane Mitch relief.
[11] Includes debt forgiveness.

1. General Policy Framework

Nicaragua has made considerable progress since 1990 in moving from a centralized to a market-oriented economy. The country has liberalized its foreign trade regime, brought inflation under control, and eliminated foreign exchange controls. With the inauguration of President Arnoldo Aleman in January 1997, Nicaragua began to quicken the pace of its opening to foreign trade. The economy grew by seven percent in 1999. To foster macroeconomic stability, the Aleman administration signed an Economic Structural Adjustment Facility (ESAF) program with the IMF in January 1998. Nicaragua has received significant debt relief in the aftermath of Hurricane Mitch, including the deferral of all bilateral debt service payments between November 1998 and February 2001 by the Paris Club. Nicaragua with its huge debt of $6 billion seeks significant debt forgiveness through the Heavily Indebted Poor Countries (HIPC) Initiative.

At the end of its fourth year in office, the Aleman administration faced important economic challenges including: meeting the targets of a structural adjustment program with the International Monetary Fund; making progress on the resolution of thousands of Sandinista-era property confiscation cases; and reducing unemployment and poverty in the hemisphere's second-poorest nation. Nicaragua's large current account deficit and fiscal deficit are counterbalanced by strong inflows of foreign assistance and private capital.

Nicaragua is essentially an agricultural country with a small manufacturing base. The country is dependent on imports for most manufactured, processed, and consumer items. A member of the World Trade Organization, Nicaragua has reduced tariffs sharply and eliminated most non-tariff barriers. Private investment, from both domestic and foreign sources, is rising. Agriculture, construction, and the export sector have led Nicaragua's recent economic growth. The United States is Nicaragua's largest trading partner, with both exports and imports expanding in recent years.

2. Exchange Rate Policy

Since January 1993, the Nicaraguan government has followed a crawling-peg devaluation schedule. The cordoba to dollar rate is adjusted daily. The Government of Nicaragua, in December 1999, reduced the devaluation rate of the cordoba to six percent per annum. A legal parallel exchange market supplies foreign currency for all types of exchange transactions. The spread between the official and parallel markets was slightly over one half percent in 2000. The government eliminated all significant restrictions on the foreign exchange system in 1996.

3. Structural Policies

Pricing Policies: The Nicaraguan government maintains price controls only on sugar, domestically produced soft drinks, certain petroleum products, and pharmaceuticals. In the past, however, the government has negotiated voluntary price restraints with domestic producers of important consumer goods. During the aftermath of Hurricane Mitch, the government instructed distributors of basic food products to maintain stable food prices. However, that control no longer exists.

Tax Policies: Nicaragua is in the process of progressive import tax reductions through the year 2002. Nicaragua imposes regular import duties (DAI) of 10 percent on final consumption goods and 5 percent on intermediate goods (there is no DAI on raw materials and capital goods produced outside of Central America, but to import raw materials and capital goods that are produced in any Central American country one must pay a 5 percent DAI). Some 900 items are levied with a temporary protection tariff (ATP) of 5 to 10 percent, above the DAI. The maximum rate of the combined DAI and ATP on most items is 20 percent. A luxury tax is levied through the specific consumption tax (IEC) on 609 items. The tax generally is lower than 15 percent (with significant exceptions; see below). DAI and ATP are based on CIF value. IEC for domestically produced goods are based on the manufacturer's price, and for imported goods on CIF, except for alcoholic beverages and tobacco products, in which case the IEC is assessed on the price charged to the retailer. Nicaragua levies a 15 percent value added tax (IGV) on most items, except agricultural inputs. Import duties on so-called "fiscal" goods (e.g., tobacco, soft drinks, and alcoholic beverages) are particularly high. Some protected agricultural commodities such as corn and rice face import tariffs of up to 55 percent. Cars with large engines (greater than 4000 cc) face an IEC tax of 25 percent. Vehicles with smaller engines are charged between zero and three percent IEC tax. Importers of many items face a total import tax burden of 15 to 63 percent. Chicken parts are levied up to 180 percent DAI duties.

Nicaragua's 1997 tax reform law marked an important step by the Aleman administration towards fostering Nicaragua's insertion into the global economy. The reform: a) banned almost all non-trade barriers on imports; b) eliminated the discretionality of government officials to exonerate tariffs; c) repealed the restrictive Law on Agents, Representatives or Distributors of Foreign Firms (effective July 1, 1998); d) established a "rebate" of 1.5 percent of FOB value for all exports; e) eliminated payments for permits and licenses related to export activities; f) eliminated IGV on several activities; g) reduced municipal taxes from 2 to 1.5 percent in 1998 and to 1 percent in 2000; h) eliminated income tax on interest and capital gains stemming from transactions on the local stock exchange; and i) set a schedule of progressive import tax reductions through the year 2002.

In March 1999 the National Assembly passed an ambitious tax package that put Nicaragua ahead of the rest of Central American countries in lowering tariffs and reducing exemptions. The amendment to the Ley de Justicia Tributaria (Tax Justice Act) established: a) tax exemptions for NGOs (non-governmental organizations) as long as they perform non-profit activities; b) exemptions on import taxes (DAI), luxury taxes (IEC), and sales taxes for hospital investments; c) reduction of the tax levied on vehicles based on engine size (this amendment has reduced the discriminatory tariff treatment that arises from the fact that American cars have bigger engines than their similar Asian competition); d) exemption of DAI, ATP and IGV on crude or partially-refined petroleum, as well as on liquid gas and other petroleum derivatives; e) higher taxes on liquors and tobacco; and f) elimination of import taxes on capital goods, intermediate goods, and raw materials destined for the agricultural sector, small handicraft industry, fishing and aquaculture. In December 1999 Nicaragua instituted a 35 percent tariff on all goods from Honduras as a retaliatory measure for Honduras' signing of a maritime border delineation agreement with Colombia.

In April 2000 the National Assembly again modified the Tax Justice Law to further reduce nominal luxury (IEC) taxes and to extend benefits enjoyed by cooperatives and the small business, agricultural, aquaculture and fishing sectors. This reform lowered the IEC levied on alcoholic beverages to between 34–43 percent (down from 40–50 percent). Cigars and cigarettes went down to 40 percent IEC tariff from 59–61 percent. The IEC on soft drinks will decrease by 3 percentage points annually until it reaches 9 percent. Cigars and cigarettes will decrease by 1 percentage point annually until the tax reaches 38 percent, and rums and liquor until the IEC arrives at 35 percent. Beers will decrease by 1 percentage point annually as well, until the IEC reaches 32 percent. The benefits of this cut, however, were reduced for imported alcoholic beverages and tobacco products, since the tax will now be based on the sales price to the retailer, rather than on CIF price. The same amendment to the tax law calls for a 37-cent tax rebate for every pound of trawled shrimp exported; or 7 cents for every pound of farmed shrimp. The legislation conditionally extends the exemptions granted to cooperatives of income tax, IGV, DAI and ATP.

4. Debt Management Policies

The previous administration of Violeta Chamorro inherited a $10.7 billion debt from the Sandinista regime in 1990. Over the next eight years, Nicaragua negotiated a series of deals that reduced its stock of debt to $6.3 billion at the end of 1998. Despite this progress, Nicaragua's debt, at almost three times GDP, remains high. Accordingly, the Aleman government has made debt reduction a top priority. In April 1998 the Paris Club creditors and the Nicaraguan government reached an agreement on the terms and conditions for reducing and rescheduling a large portion of Nicaragua's official debt. In response to damage caused by Hurricane Mitch, the Paris Club agreed in December 1998 to defer all debt service payments through February 2001. Nicaragua also received special assistance from bilateral donors, mainly through the Central American Emergency Trust Fund (CAETF) that reduced its debt service payments to multilateral creditors. A promising avenue for debt reduction of multilateral debt is through the Heavily Indebted Poor Countries (HIPC) Initiative. There was a preliminary discussion of Nicaragua's eligibility in September 1999, but Nicaragua has not yet reached a decision point.

5. Aid

Nicaragua is highly dependent on foreign aid to cover its trade and fiscal deficits. More than half of its assistance is provided by multilateral financial institutions like the Inter-American Development Bank and World Bank. European countries, Japan, Taiwan, and the United States are also major donors . Since 1990, the United States has provided more than $1.2 billion in assistance and debt-relief to Nicaragua. That money has funded such projects as balance of payments support for economic stabilization, primary education, health care reform, employment generation, food donations, and the strengthening of democratic institutions. In May 1999 as part of relief for damage caused by Hurricane Mitch, donor countries in Stockholm for a Consultative Group meeting agreed to provide Nicaragua with more than $2 billion in assistance and concessionary loans. The U.S. commitment totaled nearly $100 million. Nicaragua is not believed to receive extensive amounts of military equipment from any third country, although Spain, Mexico, Taiwan, and France, among others, do provide training.

6. Significant Barriers to U.S. Exports

Import Licenses: In most cases, the issuance of import licenses is a formality. Permits are required only for the importation of sugar, firearms and explosives. U.S. exporters of food products must meet some phytosanitary requirements.

Services Barriers: Although nine private banks are now operating, no U.S. bank has yet re-entered the Nicaraguan financial market. Legislation passed in 1996 opened the insurance industry to private sector participation and four private insurance companies have been formed. No U.S. insurance company has entered the Nicaraguan market, either.

Investment Barriers: Remittance of 100 percent of profits and original capital three years after investment is guaranteed through the Central Bank at the official exchange rate for those investments registered under the Foreign Investment Law. Investors who do not register their capital may still make remittances through the parallel market, but the government will not guarantee that foreign exchange will be available. The United States is aware of no investor who has encountered remittance difficulties since the inception of the Foreign Investment Law in 1991. The fishing industry remains protected by requirements involving the nationality and composition of vessel crews, and a requirement for domestic processing of the catch. Expropriations from the Sandinista era remain an impediment to investment, as land titling is often unclear. The government in 2000 opened new property tribunals to help address the issue.

Customs Procedures: Importers complain of steep secondary customs costs, including customs declaration form charges and consular fees. In addition, importers are required to utilize the services of licensed customs agents, adding further costs. Nicaragua had been scheduled to implement WTO customs valuation procedures in September 2000, but has missed this target date and continues to use reference prices to determine import tax valuations.

Private Property Rights: The need to resolve thousands of cases of homes, businesses and tracts of land confiscated without compensation by the Sandinista government during the 1980s remains a divisive issue in Nicaragua. The Nicaraguan government has made the resolution of these cases a priority. Nonetheless, potential investors must carefully verify property titles before purchase.

In 1996 Nicaragua ratified the U.S.-Nicaragua Bilateral Investment Treaty that is designed to improve protection for investors. The treaty has been submitted but not ratified by the U.S. Senate.

7. Export Subsidy Policies

All exporters receive tax benefit certificates equivalent to 1.5 percent of the FOB value of the exported goods. Foreign inputs for Nicaraguan export goods from the country's free trade zones enter duty-free and are exempt from value-added tax.

8. Protection of U.S. Intellectual Property

Nicaragua belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is signatory to the Paris Convention, Mexico Convention, Buenos Aires Convention, Inter-American Copyrights Convention, Universal Copyright Convention, and the Satellites Convention.

The government has indicated a firm commitment to providing adequate and effective intellectual property rights protection. However, current levels of protection still do not meet international standards. Although unable to dedicate extensive resources to protecting intellectual property rights, Nicaragua is working to modernize its intellectual property rights regime. In January 1998 Nicaragua and the United States signed a bilateral IPR agreement covering patents, trademarks, copyright, trade secrets, plant varieties, integrated circuits, and encrypted satellite signals. In 1999 the National Assembly approved a new copyright law, a plant variety protection law, a law on the protection of satellite signals, and a law on integrated circuit design. In 2000 a new law on patents was passed and a draft law on trademarks still requires a vote in the National Assembly.

Trademarks: Protection of well-known trademarks is a problem area for Nicaragua. Current procedures allow individuals to register a trademark without restriction for a renewable 10-year period at a low fee.

Copyrights: Pirated videos are readily available in video rental stores nationwide, as are pirated audiocassettes and software. In addition, cable television operators are known to intercept and retransmit U.S. satellite signals, a practice that continues (at a lower level) despite a trend of negotiating contracts with U.S. sports and news satellite programmers. On August 21, 1999 a new copyright law went into effect; however, criminal penalties were delayed for 6–12 months. The U.S. government and the industry are working with the Nicaraguan government to provide training for effective enforcement. Video and audiocassette pirates as well as small cable operators have asked the National Assembly for additional delays.

9. Worker Rights

a. *The Right of Association:* The constitution provides for the right of workers to organize voluntarily in unions. The 1996 labor code reaffirmed this right. Less than half of the formal sector workforce, including agricultural workers, is unionized, according to labor leaders. The constitution recognizes the right to strike. Unions freely form or join federations or confederations, and affiliate with and participate in international bodies.

b. *The Right to Organize and Bargain Collectively:* The constitution provides for the right to bargain collectively. According to the 1996 labor code, companies engaged in disputes with employees must negotiate with the employees' union if they are organized.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced or compulsory labor. There is no evidence that it is practiced.

d. *Minimum Age for Employment of Children:* The constitution prohibits child labor that can affect normal childhood development or interfere with the obligatory school year. The 1996 labor code raised the age at which children may begin working with parental permission from 12 to 14. Parental permission is also required for 15 and 16 year-olds. The law limits the workday for such children to 6 hours and prohibits work at night. However, because of the economic needs of many families and lack of effective government enforcement mechanisms, child labor rules are rarely enforced, except in the formal sector of the economy.

e. *Acceptable Conditions of Work:* The 1996 labor code maintains the constitutionally mandated 8-hour workday. The standard legal workweek is a maximum of 48 hours, with one day of rest. The 1996 code established that severance pay shall be from one to five months' duration, depending on the length of employment and the circumstances of termination. The code also seeks to bring the country into compliance with international standards of workplace hygiene and safety, but the Ministry of Labor lacks adequate staff and resources to enforce these provisions. Minimum wage rates were raised in November 1997, and increased further in August 1999, but the majority of urban workers earn well above the minimum rates.

f. *Rights in Sectors with U.S. Investment:* Labor conditions in sectors with U.S. investment do not differ from those in other sectors of the formal economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing:		4
Food and Kindred Products	0	
Chemicals and Allied Products	4	
Metals, Primary and Fabricated	(2)	
Machinery, except Electrical 0.		
Electric and Electronic	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		6

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999—Continued

[Millions of U.S. Dollars]

Category	Amount
Banking	0
Finance/Insurance/Real Estate	0
Services	0
Other Industries	(1)
TOTAL ALL INDUSTRIES	167

(1) Suppressed to avoid disclosing data of individual companies.
(2) Less than $500,000 (+/–).
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

PANAMA

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP	9,143	9,608	10,049
Real GDP (1982 prices)	6,933	7,158	7,344
Real GDP Growth (pct) [2]	3.9	3.2	2.6
Real GDP by Sector (1982 prices):			
Agriculture	449	461	508
Manufacturing	1,304	1,340	1,344
Services	4,206	4,347	4,470
Government	974	1,009	1,022
Real Per Capita GDP (US$)	2,509	2,577	2,648
Labor Force (000s)	1,083	1,089	1,095
Unemployment Rate (pct)	13.4	11.6	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2) Growth (pct) [3]	13.0	8.5	2.8
Consumer Price Inflation	0.6	1.5	1.8
Exchange Rate (Balboa/US$ annual average) [4]	1	1	1
Balance of Payments and Trade:			
Total Exports FOB [5]	784	821	779
Exports to United States	312	364	268
Total Imports CIF [5]	3,398	3,440	3,442
Imports from United States	1,753	1,742	1,764
Trade Balance [5]	–2,614	–2,619	–2,663
Balance with United States	–1,441	–1,378	–1,502
Colon Free Zone [6]			
Exports	6,001	5,160	5,377
Imports	5,318	4,230	4,657
CFZ Balance	683	930	720
External Public Debt [7]	5,179	5,411	5,332
Fiscal Deficit (–)/GDP (pct) [8]	–4.4	–1.6	–1.5
Current Account Deficit (–)/GDP (pct)	13.2	13.9	13.4
Debt Service Ratio (pct)	7.6	11.5	N/A
Gold and Foreign Exchange Reserves [9]	1,370	1,516	1,616
Aid from USAID	4.8	5.3	4.4

[1] Figures for 2000 are estimated unless otherwise indicated.
[2] Embassy Estimate
[3] Figure is based on IMF 10/2000 International Financial Statistics. M2 = Deposit Money + Quasi Money.
[4] The balboa/dollar exchange rate is fixed at 1:1. The legal tender is the U.S. dollar, so there is no parallel exchange rate.
[5] Trade statistics do not include the Colon Free Zone.
[6] The Colon Free Zone (CFZ) is the largest free trading area in the hemisphere.
[7] External debt balance on June 30, 2000.
[8] Figures indicate deficit of the non-financial public sector as percent of GDP.

[9] Figure is based on IMF 10/2000 International Financial Statistics. Panama reports no gold holdings.

1. General Policy Framework

Panama's economy is based on a well-developed services sector that accounts for just over 60 percent of GDP. Services include the Panama Canal, container port activities, shipping, flagship registry, banking, insurance, as well as wholesaling and distribution out of the Colon Free Zone. The industrial sector, which accounts for 19 percent of GDP, is made up of manufacturing, mining, utilities, and construction. Agriculture, forestry and fisheries account for 7 percent of GDP. Government accounts for the remaining 14 percent of GDP.

The economy grew 3.2 percent in real terms in 1999, down from 3.8 percent in 1998. The Government of Panama estimates growth in 2000 of slightly below three percent, but independent economists forecast even slower growth. Economic growth has been hindered by the continued slump of the Colon Free Zone, the departure of the U.S military, and the general economic uncertainty that followed the change in governments. Another impediment has been the inexperience of the new administration. The Moscoso Administration lacks a clear economic agenda and has as yet neglected to address matters of concern to business, such as Panama's debt, fiscal imbalance, and costly labor law. This has created a feeling of uncertainty about Panama's business prospects and has slowed new investment. A rare, recent instance where the Panamanian government acted to bolster Panama's business reputation was its passage of laws to address international criticism that Panama is soft on money laundering. Nevertheless, slower growth and unemployment are on Panama's short- and medium-term horizon.

The main culprit for the decline of the Colon Free Zone is the continued political instability and accompanying economic downturn in its principal customer countries Venezuela, Colombia, Peru, and Ecuador. Weather problems, shrimp viruses, European banana policy, inefficiency, and labor disputes continue to hurt Panamanian agricultural exports harshly. Consumer spending slowed during the first half of the year. The combination of relatively high costs for utilities and low productivity of labor continues to make unit production costs higher than average for the region. The construction industry, although not nearly as vigorous as a year ago, maintains solid growth, fueled mainly by easy bank credit and the availability of capital fleeing South America.

Overall, the state has reduced its direct involvement in the Panamanian economy in recent years. Despite this favorable trend, the Panamanian government has retained market-distorting indirect taxation as well as investments in recently privatized telecommunications, ports, and energy sectors. To their credit, the previous and current Panamanian government have lowered Panama's budget deficit from 4.4 percent to 1.6 percent and 1.5 percent respectively. The incoming administration of Mireya Moscoso (September 1999) slowed the trade liberalization and privatization trends of the previous government, especially as the new competition

3. Structural Policies

In her election campaign, President Moscoso promised to repeal the drastic reduction of agricultural tariffs by her predecessor, and to improve the lot of Panama's poor, especially the rural poor. The Panamanian government has not undertaken any further initiatives toward trade liberalization nor reduction of structural economic distortions. Privatization of the state-run water and sewage company (IDAAN) is off the table, and a similar plan for the international airport is on hold. A bid tender for the local convention center was just held and the government plans on releasing the winner's name in early October. Progress to attract investment in the reverted areas was slowed due to the government transition, and continues to suffer due to internal differences over plans for major new projects. Panama remains close to completing a free trade agreement with Mexico, but talks are bogged down over differences in the financial services and agricultural sectors, even despite a high-level visit by President Moscoso to Mexico City.

Foreign investment, much of it American, flowed into Panama at a steady pace under the former Perez-Balladares Administration. American energy, telecommunications and port/cargo companies invested significant amounts in newly deregulated and/or privatized sectors and companies. However, the current government has done little for the new investors of the previous administration, and FDI has now reached its lowest level in over a decade. Moreover, various Panamanian government entities have adopted confrontational postures in dealing with many of these new investors, thus discouraging new forays. An unhelpful Panamanian government attitude and festering disputes have discouraged potential investors from setting up in Panama.

The restrictive Panamanian Labor Code was revised in 1995, though strong opposition allowed only marginal reform. Unions continue to oppose reform initiatives, on occasion violently. Notwithstanding several health and housing programs, government and World Bank estimates claim nearly 40 percent of Panamanians live in poverty. Considering the relatively high per capita income level of over $3,600 (current dollars), Panama's historically skewed income distribution does not appear to be abating. Panama's constitution requires that the minimum wage be reviewed every two years. In 2000 the Panamanian government raised the wage 12 percent or just over $250/month to the applause of the business community and the ire of workers. The unrest ended when Moscoso pledged future wage raises would amount to 40 percent by the end of her term.

Panama maintains no restrictions on capital flows or capital repatriation by foreign investors, nor does it reserve large sectors of the economy for its nationals.

4. Debt Management Policies

Panama's public external debt totaled $5.33 billion dollars at mid-2000. Although Panama's sovereign debt remains just below investment grade, several Panamanian banks enjoy investment grade status. Panama's outstanding domestic debt was $2.27 billion at mid-year. The newly installed government has stated publicly its reluctance to take on more foreign debt, but accrued $400 million in its first year and plans on taking another $500 million in the 2001 budget. That said, overall public debt should fall slightly by the end of the year, as principal amortization will exceed new borrowings by $30 million. Debt service (principal and interest) will exceed $1.7 billion (20 percent of GDP) this year. The current Panamanian government intended to pay down some of its debt, with proceeds from the sale of the Panamanian government's stock in the private telephone monopoly run by Cable and Wireless (UK) and its Fiduciary Fund, a government holding accumulated from various recent privatizations, but failed to garner the support from its then majority in the National Assembly. As a result, Panama's $1.35 billion Fiduciary Fund remains, for now, subject to strict investment and capital preservation guidelines.

5. Aid

Development assistance from the United States in 1999 totaled $5.3 million. In addition, the United States Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) operates a screw worm eradication program in Panama. APHIS plans to build a sterile screw worm fly plant in Panama at a cost of roughly $80 million, for entry into service in 2003.

Development aid from other sources came primarily from the Inter American Development Bank (IDB), which currently possesses a $953 million portfolio for Panama ($911 million to be disbursed within the next four years), and a standby agreement (not disbursed) from the International Monetary Fund (IMF). The World Bank funds various development and infrastructure projects in Panama. The U.S. State Department's Narcotic Affairs Division gave over $500,000 in FY2000 to combat illegal activities in Panama. The Republic of China and the government of Japan both have given significant amounts of aid in both 1999 and 2000.

6. Significant Barriers to U.S. Exports

Panama's accession to the WTO transformed for the better a tariff regime that just a few years earlier was one of the highest in the region. However, the new Moscoso government's primary trade initiative was an abrupt increase in tariffs on various agricultural imports. Through its Ministry of Agricultural Development, Panama has also adopted a *de facto*, arbitrary import licensing regime for goods that are subject to sanitary and phyto-sanitary permits under Panamanian law. The plant inspection and certification process required of foreign meat and poultry processing plants is time consuming, lacks transparency, and constitutes an additional barrier.

The Panamanian judicial system presents another potential obstacle to investors and traders. There is a large backlog of criminal and civil cases, which can take several years to be resolved. Many investors have concerns over the potential for corruption in the judicial process.

As a WTO member, Panama has ensured that its customs valuation system now conforms to international standards. Overall, the processing of customs documents for manufactured or mineral imports is reasonably quick, efficient, and reliable. However, some importers have complained of product misclassification and, in isolated cases, demands for excessive duties. Importers of agricultural goods continue to face sudden and arbitrary changes in procedures and practices. Panama is an active participant in negotiations for the FTAA and will serve as host for the new round of negotiations that are to begin in March 2001.

In the financial services sector, restrictions on foreign ownership are minimal except in the case of non-bank finance companies. U.S. banks, insurance companies and brokerages are welcome and in some cases are leaders in the local market.

7. Export Subsidies Policies

Panamanian law allows any company to import raw materials or semi-processed goods at a duty of three percent for domestic consumption or production, or duty free for export production. In addition, companies not already receiving benefits under the Special Incentives Law of 1986 are allowed a tax deduction of up to 10 percent of their profits from export operations through 2002. The Tourism Law of 1994 (Law 8) allows deduction from taxable income of 50 percent of any amount invested by Panamanian citizens in tourism development.

Because of its WTO obligations, Panama has revised its export subsidy policies. The Tax Credit Certificate (CAT), which used to be given to firms producing non-traditional exports when the exports' national content and value-added met minimum established levels, will be gradually phased out. The policy allows exporters to receive CATs equal to 15 percent of the exports' national value-added until the year 2002, down from 20 percent prior to 1998. After 2002, the program will be eliminated. The certificates are transferable and may be used to pay tax obligations to the government, or they can be sold in secondary markets at a discount. The government has become stricter in defining national value-added, attempting to reduce the amount claimed by exporters.

A number of industries that produce exclusively for export, such as shrimp farming and tourism, are exempted from paying certain types of taxes and import duties. The Government of Panama uses this policy to attract foreign investment. Companies that profit from these exemptions are not eligible to receive CATs for their exports.

Law 25 of 1996 provides for the development of "export processing zones" (EPZ's) as part of an effort to broaden the Panamanian manufacturing sector while promoting investment in former U.S. military bases that were transferred to Panamanian control. Companies operating in these zones may import inputs duty-free if products assembled in the zones are to be exported. The government also provides other tax incentives to EPZ companies. Most EPZ's remain in the early stages of development, with only a few tenants. They are growing sporadically depending on location.

8. Protection of U.S. Intellectual Property

Intellectual Property Rights: Panama is a member of the World Intellectual Property Organization (WIPO), the Geneva Phonograms Convention, the Brussels Satellite Convention, the Universal Copyright Convention, the Bern Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, and the International Convention for the Protection of Plant Varieties. In November 1998 it was one of the first countries to ratify the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty.

Protection of intellectual property rights in Panama has improved significantly over the past several years, but serious concerns remain about widespread use of pirated software in government offices, inadequate border measures to combat transshipment of counterfeited goods through Panama, and enforcement in the Colon Free Zone (CFZ). In 1998 an Intellectual Property Department was created in the CFZ. This is viewed as a positive step demonstrating Panama's will to improve enforcement, and the new Department has enjoyed some success, but an expanded effort will be required to address this problem more completely.

In August 1994 the Legislative Assembly passed Law 15 (the Copyright Law) to help modernize copyright protection. This comprehensive copyright bill was based on a World Intellectual Property Organization model. The law modernizes copyright protection in Panama, provides for payment of royalties, facilitates the prosecution of copyright violators, protects computer software, and makes copyright infringement a felony.

A new Industrial Property Law (Law 35) went into force in November 1996. It provides 20 years of patent protection in place of the former period of 5 to 15 years for foreigners and 5 to 20 years for Panamanians. The law grants patent protection from the date of filing. Pharmaceutical patents are granted for only 15 years, but can be renewed for an additional ten years, if the patent owner licenses a national company (minimum of 30 percent Panamanian ownership) to exploit the patent. The law also provides for protection of trademarks, simplifying the process of registering trademarks and making them renewable for ten-year periods. The Industrial Property Law provides specific protection for trade secrets.

The government also passed an Anti-Monopoly Law in early 1996 mandating the creation of four commercial courts to hear anti-trust, patent, trademark, and copyright cases exclusively. Two courts and one superior tribunal began to operate in mid-1997, but establishment of the other courts has been delayed. Some U.S. intellectual property owners have experienced significant delays when they have sought infringement remedies in the Panamanian judicial system.

Over the past several years, Panamanian authorities have conducted numerous raids against large video piracy operations, and several cases are pending in the courts. In a series of raids in late 1998, authorities seized more than five million pirated compact discs being transshipped through Tocumen International Airport, believed to be the largest seizure ever in Latin America.

Although the Attorney General's Office has taken a vigorous enforcement stance, the Copyright Office has been ineffective, and Panama's judicial system has not provided speedy and effective remedies for private civil litigants under the law. Panama is in the process of modernizing its copyright registration and patent and trademark registration capabilities. The government is also drafting amendments to its copyright law that would fully implement the new WIPO treaties. An initiative which would consolidate copyright, patent, and trademark functions into a single autonomous entity and another initiative to create a specialized Prosecutor's Office for IPR have been delayed due to resource constraints and government transition.

9. Worker Rights

a. *The Right of Association:* Private sector workers have the right to form and join unions of their choice, subject to registration by the government. The government does not control nor financially support unions, but most unions are closely affiliated with political parties. There are over 250 active unions, grouped under 6 confederations and 48 federations, representing approximately 10 percent of the employed labor force. Civil service workers are permitted to form public employee associations and federations, though not unions. Union organizations at every level may and do affiliate with international bodies.

b. *The Right to Organize and Bargain Collectively:* The Labor Code provides most workers with the right to organize and bargain collectively. The law protects union workers from anti-union discrimination and requires employers to reinstate workers fired for union activities. The Labor Code also establishes a conciliation board in the Ministry of Labor to resolve complaints and it provides a procedure for arbitration. The Civil Service Law allows most public employees to organize and bargain collectively and grants them a limited right to strike.

c. *Prohibition of Forced or Compulsory Labor:* The Labor Code prohibits forced or compulsory labor, and neither practice has been reported.

d. *Minimum Age for Employment of Children:* The Labor Code prohibits the employment of children under 14 years of age as well as those under 15 if the child has not completed primary school. Children under age 16 cannot work overtime; those under 18 cannot work at night. Children between the ages of 12 and 15 may perform light farm work that does not interfere with their education. The Ministry of Labor enforces these provisions in response to complaints and may order the termination of unauthorized employment. However, it has not enforced child labor provisions in rural areas due to insufficient staff.

e. *Acceptable Conditions at Work:* The Labor Code establishes a standard workweek of 48 hours and provides for at least one 24-hour rest period weekly. It also establishes minimum wage rates, though in the relatively high cost urban areas, the minimum wage is not sufficient to support a worker and family above the poverty level. The Ministry of Labor does not adequately enforce the minimum wage law due to insufficient personnel and financial resources. Panamanian businesses routinely evade Social Security payroll contributions. The government is responsible for occupational health and safety standards. On paper the government has the responsibility for conducting periodic inspections of particularly hazardous work sites, but in practice its ability to perform adequate safety inspections is hindered by poor funding and the lack of trained personnel. The labor code permits workers to remove themselves from situations that present an immediate health or safety hazard without jeopardizing their jobs, however this practice almost never occurs. Health and safety standards generally emphasize safety rather than long-term health hazards, but training and workplace enforcement of safety regulations or on the use of safety equipment is lax. Complaints of health and safety problems continue in the construction, banana, cement, and milling industries.

f. *Rights in Sectors with U.S. Investment:* Worker rights in sectors with U.S. investment generally mirror those in other sectors. As mentioned above, the banana industry, which has significant U.S. investment, continues to produce complaints of health hazards largely due to workers' exposure to pesticides.

Extent of U.S. Investment in Selected Industries in Panama—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		648
Total Manufacturing		157
Food and Kindred Products	36	
Chemicals and Allied Products	31	
Primary and Fabricated Metals	17	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	72	
Wholesale Trade		442
Banking		131
Finance/Insurance/Real Estate		31,805
Services		285
Other Industries		-38
TOTAL ALL INDUSTRIES		33,429

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

PARAGUAY

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production, and Employment:			
Nominal GDP [2]	8,594	7,741	7,677
Real GDP Growth (pct)	–0.4	0.5	0.7
GDP by Sector (pct):			
Agriculture	28	27	27
Manufacturing	14	14	12
Services	37	36	36
Government	23	23	25
Per Capita GDP (1982 US$)	1,585	1,552	1,472

Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Labor Force (000s)	N/A	N/A	N/A
Unemployment Rate (pct)	10	12	17
Underemployment Rate (pct)	21	22	26
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	–4.7	12.1	14.7
Consumer Price Inflation (pct)	14.6	7.0	11
Exchange Rate (GS/US$ Year End)	2,830	3,310	3,550
Official	N/A	N/A	N/A
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB [3]	3,824	2,740	2,900
Exports to United States [3]	33	48	66
Total Imports CIF [3]	3,941	3,039	3,400
Imports from United States [3]	786	515	360
Trade Balance [3]	–117	–299	–500
Balance with United States [3]	–695	–467	–294
External Public Debt	1,599	2,108	2,280
Fiscal Deficit/GDP (pct)	–1.2	–3.6	–3.9
Current Account Deficit/GDP (pct)	–2.7	–0.9	–2.2
Debt Service Payments/GDP (pct)	1.9	3.8	4.0
Gold and Foreign Exchange Reserves	875	988	720
Aid from United States	2.2	3.0	3.0
Aid from All Other Sources	33.5	44	45

[1] 2000 figures are central bank preliminary data except for U.S. imports and exports, which are taken from U.S. Department of Commerce Trade Statistics.
[2] Percentage changes calculated in local currency.
[3] Merchandise trade.
[4] External and internal public debt only. Private external debt to GDP share not yet available.

1. General Policy Framework

Over the last decade, Paraguay's economic policy framework has encouraged the re-export trade to Brazil and Argentina and provided tax and regulatory advantages as well as soft loans to non-competitive local industries. In agriculture, the government has continued non-transparent state-run cotton programs for small farmers and kept hands off large-scale private sector oil seed production, the leading source of hard currency from exports. Government investment has shrunk as spending on debt service and government salaries to provide political patronage drain government revenue.

The economy in Paraguay is currently growing at a slower rate than the population. According to the Paraguayan Central Bank, the GDP grew by 0.5 percent in 1999 and is projected to grow by 0.7 percent in 2000. Until the mid-1990s, Paraguay largely avoided deficit spending and kept foreign debt at manageable levels. Government spending as a percentage of GDP began to increase earlier in the decade, but deficits were avoided due to revenue windfalls from taxes and tariffs on imports from the re-export trade. This windfall was not productively invested, but rather spent to swell already bloated government payrolls.

The Central Bank under the Cubas administration (August 1998–March 1999) kept interest rates high on guarani-based bonds sold to private banks, limiting liquidity and keeping exchange rate pressures off the guarani. In an effort to stimulate the economy, the Gonzalez Macchi government has lowered interest rates from 29 to 9.5 percent between May 1999 and September 2000. A series of banking failures and political instability over the last several years has led investors to move to dollar-based deposits and loans. The Paraguayan government is heavily dependent on tariff revenue, which will continue to shrink in the near future as Mercosur adjusts downward its common external tariff rate.

Paraguay's membership in Mercosur offers some opportunities. Efforts to improve weak infrastructure, especially in power transmission and distribution, telecommunications, road, river, and civil aviation systems, postal system, potable water, and sewage treatment, provide potential markets for United States' goods and services.

2. Exchange Rate Policy

All foreign exchange transactions are settled at the daily free market rate. The Central Bank practices a dirty float, with periodic interventions aimed at stabilizing the guarani. These interventions have become more frequent, with the central bank selling $195 million between June 1 and September 15, 2000. In the twelve months leading up to November, the guarani depreciated by 6 percent against the dollar, with most of that devaluation (4.2 percent) occurring in the month of February. On October 16 the market rate stood at 3,480 guaranies to the dollar. It is legal to hold savings accounts in foreign currency, and in October 1994 a decree was promulgated that legalized contractual obligations in foreign currencies. With a lingering recession, the failure of many local banks, and exchange rate uncertainty, the dollar has become the preferred unit for large purchases, savings, and virtually all international transactions. Two thirds of all funds in Paraguayan savings accounts are in dollar-based accounts as of October 2000.

3. Structural Policies

Consumer prices are generally determined by supply and demand, except for public sector utility rates (water, electricity, telephone), petroleum products, pharmaceutical products, and public transportation fares. The Ministry of Finance oversees all tax matters. Under current law, corporate income tax rate is 30 percent. There is no personal income tax. As an incentive to investment, the tax rate on reinvested profits is 10 percent. The existing Investment Promotion Law (Law 60/90) includes complete exemption from start-up taxes and customs duties on imports of capital goods. There is a 95 percent corporate income tax exemption for five years on the income generated directly from investment approved for fiscal incentives under law 60/90. The Ministry of Finance, at the urging of the IMF, is currently studying the elimination of a variety of tax breaks, including Law 60/90, to help balance the budget. Implemented in 1992, the value-added tax (IVA) stands at ten percent. Some analysts have estimated that IVA compliance hovers around 30 percent. Charges of corruption among tax officials are endemic. Nearly half of all tax revenues are collected at customs on imported merchandise. Agriculture makes up nearly 25 percent of GDP, but contributes less than one percent of government revenue. Even though land taxes are low, chaotic land title records makes land tax evasion the norm.

4. Debt Management Policies

In 1992 the government reduced external debt with both official and commercial creditors through a drawdown of foreign reserves. Since that time, however, increasingly large public deficits have nudged public debt back upward. Foreign reserves dwindled to $652 million by the end of June 1999. A $395 million loan from Taiwan in July temporarily bolstered reserves, which have since been reduced from $1,017 million in September 1999 to below $800 million in September 2000. The government's debt at the end of July 2000 totaled $2.208 billion. Nearly all of this is bilateral or multilateral debt with minimal outstanding loans to private sector banks. The government is about to reverse that trend and sell $85 million in bonds to private banks to fund end-of-year bonuses to government employees. Last year the World Bank announced that it would close its office in Paraguay at the end of 2000, a move interpreted as signaling discontent with the pace of state reform in Paraguay. Paraguay continues to meet its obligations to foreign creditors in a timely fashion.

5. Aid

Direct U.S. aid to Paraguay in fiscal year 2000 included $6,225,000 in USAID disbursements for democracy, reproductive health, and biodiversity protection; roughly $2,500,000 in military assistance administered at post, such as international military education, and training, information exchange visits and seminars; $337,000 in counter-narcotics assistance; and $53,000 in intellectual property rights protection assistance. Indirect U.S. contributions via the Inter-American Development Bank, World Bank, and United Nations programs totaled tens of millions of dollars more.

6. Significant Barriers to U.S. Exports

Paraguay is a member of the World Trade Organization (WTO) and has a relatively open market that does not require import licenses, except for guns and ammunition. However, the United States prohibits the export of U.S. guns and ammunition to Paraguay. U.S. companies have fared poorly in non-transparent government procurement tenders. Paraguayan regulations require country of origin designation on domestic and imported products. Expiration dates must be printed on medical products and some consumer goods. As of January 1998, imported beer is required to display detailed manufacture and content information, labeled in Spanish at the point of bottling. A similar regulation was put in place for shoes, clothing, packaged food, and other consumer products. However, labeling of imported goods at distribution centers within Paraguay is still commonplace. MERCOSUR-wide labeling requirements are currently being developed.

Law 194/93 established the legal regime between foreign companies and their Paraguayan representatives, and has been described by executives of U.S. companies represented by local firms as increasing the risk of doing business here. This law requires that to break a contractual relation with its Paraguayan distributor, the foreign company must prove just cause in a Paraguayan court. If the relationship is ended without just cause, the foreign company must pay an indemnity. The rights under this law cannot be waived as part of the contractual relationship between both parties. Foreign companies have paid large sums when ending distributor relationships in Paraguay to avoid lengthy court cases or have maintained relationships with underperforming representatives to avoid such payments. A case currently before the Supreme Court challenges the constitutionality of this law.

Decree 7084/00 prohibits the importation of used clothing. This follows years of virtual prohibition under a system in which importers were required to obtain a permit to import used clothing from the Ministry of Industry and Commerce. However, the Ministry of Industry and Commerce never issued any permits.

Decree 235/98, later modified by Decrees 2698/99 and 8366/00, created a multiplier increasing the base value on imported beer prior to calculating excise tax. The same multiplier was not applied to domestic products. Income tax must be pre-paid on presumed profit margins of ten percent for imported cigarettes and thirty percent for imported beer prior to removal from customs. Local manufacturers of cigarettes and beer pay income taxes only on reported profit margins and at year-end.

7. Export Subsidies Policies

There are no discriminatory or preferential export policies. Paraguay does not subsidize its exports. However, Paraguay exports 90 percent of its cotton crop, and government-subsidized credit to small-scale producers signifies an indirect export subsidy. The government provides small-scale farmers with subsidized inputs, such as seed and pest control products.

8. Protection of U.S. Intellectual Property

Paraguay belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Bern Convention, Rome Convention, and the Phonograms Convention. In August 2000 Paraguay ratified the WIPO Copyright Treaty (LAW 1582) and the WIPO Performances and Phonograms Treaty (LAW 1583), but as of October 16 the laws had not yet been signed by President Gonzalez Macchi. In January 1998 the U.S. Trade Representative designated Paraguay as a "Special 301" Priority Foreign Country. On February 17, 1998 the U.S. government initiated a 301 investigation of Paraguay as a result of its inadequate enforcement of intellectual property rights, its failure to enact adequate and effective IP legislation, as well as its status as a distribution and assembly center for pirate and counterfeit merchandise and the large illicit re-export trade to other MERCOSUR countries.

On November 17, 1998 USTR concluded a bilateral Memorandum of Understanding (MOU) and Enforcement Action Plan that contain specific near-term and longer-term obligations to improve the intellectual property regime in Paraguay. The agreement contains commitments by Paraguay to take action against known centers of piracy and counterfeiting; pursue amendments to its laws to facilitate effective prosecution of piracy and counterfeiting; coordinate the anti-piracy efforts of its customs, police, prosecutorial, and tax authorities; implement institutional reforms to strengthen enforcement at its borders; and ensure that its government ministries use only authorized software.

As a result of this agreement, the U.S. government has revoked Paraguay's designation as a Priority Foreign Country and terminated the Special 301 investigation. Implementation of the MOU is being monitored under Section 306 of the U.S. Trade Act. On September 20, 2000 the United States and Paraguay signed a Memorandum of Agreement under which the U.S. government agrees to jointly develop and fund a program to improve Paraguay's IPR protection regime.

Patents: The Senate is currently considering the final version of comprehensive patent legislation. Domestic industry has successfully lobbied to weaken the law. Paraguay also has patent obligations as a member of the WTO.

Trademarks: On August 6, 1998 a new Trademark Law was promulgated that includes a broader definition of trademarks. The law prohibits the registration of a trademark by parties with no legitimate interests. Provisions provide specific protection for well-known trademarks. The law also includes stronger enforcement measures and penalties for infractions. In practical terms, trademark violation is still rampant in Paraguay, and resolution in the courts is slow and non-transparent. The new law provides an important first step, but must be followed by increased enforcement and modernization of the judicial system to become fully effective.

Copyrights: On October 15, 1998 then-President Cubas Grau signed a new Copyright Law, which follows international conventions to protect all classes of creative works. Software programs receive the same treatment as literary works under the law. The law contains norms that regulate contracts related to copyrights. Law 1444, passed on June 25, 1999, made copyright violations "public actions," allowing public prosecutors to take legal action without requiring the offended party to seek redress. Practical application of copyright protection suffers the same systemic challenges as trademark protection.

9. Worker Rights

In October 1993 the Paraguayan Congress approved a new Labor Code that met International Labor Organization standards.

a. *The Right of Association:* The constitution allows both private and public sector workers, except the armed forces and police, to form and join unions without government interference. It also protects the right to strike and bans binding arbitration. Strikers and leaders are protected by the Constitution against retribution. Unions are free to maintain contact with regional and international labor organizations.

b. *The Right to Organize and Bargain Collectively:* The law protects collective bargaining. When wages are not set in free negotiations between unions and employers, they are made a condition of individual employment offered to employees. Collective contracts are still the exception rather than the norm in labor/management relations.

c. *Prohibition of Forced or Compulsory Labor:* The law prohibits forced labor. Domestics, children, and foreign workers are not forced to remain in situations amounting to coerced or bonded labor.

d. *Minimum Age for Employment of Children:* Minors from 15 to 18 years of age can be employed only with parental authorization and cannot be employed under dangerous or unhealthy conditions. Children between 12 and 15 years of age may be employed only in family enterprises, apprenticeships, or in agriculture. The Labor Code prohibits work by children under 12 years of age, and all children are required to attend elementary school. In practice, however, many thousands of children, many under the age of 12, work in urban streets in informal employment.

e. *Acceptable Conditions of Work:* The Labor Code allows for a standard legal work week of 48 hours, 42 hours for night work, with one day of rest. The law also provides for a minimum wage, an annual bonus of one month's salary, and a minimum of six vacation days a year. It also requires overtime payment for hours in excess of the standard. Conditions of safety, hygiene, and comfort are stipulated.

f. *Rights in Sectors with U.S. Investment:* Conditions are generally the same as in other sectors of the economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		17
Total Manufacturing		24
Food and Kindred Products	0	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	22	
Wholesale Trade		([1])
Banking		([1])
Finance/Insurance/Real Estate		0
Services		0
Other Industries		([1])
TOTAL ALL INDUSTRIES		229

([1]) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

PERU

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production, and Employment:			
Nominal GDP [2]	57,080	51,963	54,365
Real GDP Growth (pct) [3]	–0.4	1.4	4.5
GDP Growth by Sector:			
Agriculture	1.3	12.0	5.5
Manufacturing	–3.6	0.3	11.0
Services	–0.4	1.4	1.3
Government [included in "Services"]	1.5	3.6	1.3
Per Capita GDP (nominal US$) [2]	2,299	2,062	2,119
Labor Force (000s)	9,768	10,077	10,387
Unemployment Rate (pct) [4]	7.8	7.7	7.8
Underemployment Rate (pct) [4]	44.3	43.4	45.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	6.4	22.8	3.0
Consumer Price Inflation [5]	6.0	3.7	4
Average Exchange Rate (Sol/US$)			
Inter-bank	2.93	3.38	3.50
Parallel	2.93	3.38	3.50
Balance of Payments and Trade:			
Total Exports FOB	5,757	6,113	6,700
Exports to the United States [6]	1,861	1,743	1,999
Total Imports FOB	8,222	6,729	7,600
Imports from United States [6]	2,582	2,097	2,419
Trade Balance	–2,466	–616	–900
Balance with United States	–721	–354	–420
External Public Debt	20,318	20,089	20,000
Fiscal Deficit/GDP	–0.8	–3.0	–2.8
Current Account Deficit/GDP	–6.4	–3.5	–3.6
Debt Service Payments/GDP	2.7	3.8	4.1
Net International Reserves	9,183	8,404	8,400
Aid from United States	105	123	111
Total Aid	288.9	626.2	N/A

[1] 2000 figures are year-end estimates based on data available as of October.
[2] GDP data calculated using nominal soles figures at average exchange rates. The Peruvian government has released re-calculated GDP figures, with 1994 as the new base year (which replaced the former 1979 base year).
[3] Percentage changes calculated from GDP data in local currency at 1994 prices.
[4] Urban, at the Third Quarter.
[5] Inflation at year-end.
[6] Estimates based on annualized official data for August 2000.

Source: Central Reserve Bank of Peru, National Institute of Statistics, Ministry of Labor, Presidency of the Council of Ministers, and Embassy estimates.

1. General Policy Framework

Peru is essentially a free market economy which provides significant trade and investment opportunities for U.S. companies. Over the past ten years, the government has implemented a wide-ranging privatization program, strengthened and simplified its tax system, lowered tariffs, opened the country to foreign investment, and lifted exchange controls and restrictions on remittances of profits, dividends and royalties.

Macroeconomic/Fiscal Overview: Following two years of stagnation caused by a series of climatic and external shocks in 1997 and 1998, Peru's economy began to recover in 1999. The economy remained sluggish, however, posting growth of only 1.4 percent, primarily as a result of uncertainty in the run-up to the April 2000 national elections, which took their toll on domestic demand and investment. A marked recovery in the first half of 2000 (six percent growth over 1999's low base) slowed down as the result of political turmoil and the eventual resignation of President Fujimori. Real GDP growth for 2000 is now estimated to be 4.5 percent, although this and other projections for 2000 were made as of October 2000, prior to Fujimori's resignation and the subsequent appointment of a new government. The current account deficit is expected to contract in 2000 to about 3.6 percent of GDP. Inflation remains low by Peru's historical standards and is expected to hit 3.2 percent for the year. The government's overall budget deficit will be larger than expected for 2000 as a result of election-related expenses and a sharp drop in revenues. Peru's macroeconomic stability has brought about a substantial reduction of the high official underemployment rate, from 74 percent during the late 1980's and early 1990's to 45 percent in 2000. Poverty has also gone down since 1991, but unofficial sources estimate that 50 percent of the population still lives in poverty and 15 percent lives in extreme poverty.

Trade Policy: Peru's economy is largely open to imports. As Peru's largest trading partner, the United States exported about $2 billion to Peru in 2000, slightly above the level of 1999. Peru's average tariff rate has dropped consistently since it hit 80 percent in 1990, reaching the current level of about 13 percent. Some countries (not including the United StatesficCge tari(snut numbrget of tires exposon to Perbe-es)TjT*06925 Twcauseet oprefeurreiciat(T
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4. Debt Management

Peru's long and medium-term public external debt at the end of June 2000 totaled about $20 billion, or about 38 percent of GDP. Total service payments due on the debt for 2000 are estimated at $1.8 billion. Peru has reduced its burden of the external public debt steadily since 1993. The ratio of debt service to exports of goods and services, stood at 32.7 percent in 1999. Although this debt burden appears high when compared with similar countries, the Peruvian government has almost no domestic debt and, in recent years, has maintained a high level of international reserves. Moreover, about two thirds of deposits in the banking system are in dollars.

Peru cleared its arrears with the Inter-American Development Bank in September 1991. In March 1993 it cleared its $1.8 billion in arrears to the International Monetary Fund (IMF) and World Bank, and negotiated an Extended Financing Facility (EFF) with the IMF for 1993–95. The government negotiated a follow-on EFF for 1996–1998 and an unprecedented third EFF for 1999–2001. This program remains precautionary in nature; the government of Peru has not drawn on these funds. The Paris Club rescheduled almost $6 billion of Peru's official bilateral debt in 1991. A second Paris Club rescheduling in May 1993 lowered payments for the period March 1993–March 1996 from $1.1 billion to about $400 million. A third rescheduling was completed on July 20, 1996, under which the Club creditors agreed to reschedule approximately $1 billion in "official debt" payments coming due between 1996 and 1999, and to reschedule some debt originally rescheduled in 1991 in order to smooth out Peru's debt service profile.

Peru closed out a $10.5 billion Brady Plan commercial debt restructuring in March 1997. The government estimates annual obligations under the deal at about $300 million. With the Brady closing and the Paris Club rescheduling, Peru is now current with nearly all its international creditors. After pursuing a claim in U.S. courts for several years, a private firm that had bought $11 million in private commercial debt not included in the Brady deal succeeded in achieving a $58 million settlement, including interest and fees, with the government of Peru. There is approximately $100 million in similar non-Brady debt on secondary markets.

5. Significant Barriers to U.S. Exports

Almost all non-tariff barriers to U.S. exports and most obstacles to direct investment have been eliminated over the past ten years.

Import licenses have been abolished for all products except firearms, munitions and explosives; chemical precursors (used in illegal narcotics production); ammonium nitrate fertilizer (which has been used as a blast enhancer for terrorist car bombs), wild plant and animal species, and some radio and communication equipment. The following imports are banned: several insecticides, fireworks, used clothing, used shoes, used tires, radioactive waste, cars over five years old and trucks over eight years old.

Tariffs apply to virtually all goods exported from the United States to Peru, although rates have been lowered over the past few years. A new tariff structure that went into effect in April 1997, for example, lowered the average tariff rate from 16 to 13 percent. At the same time, the government did raise some tariffs on agricultural products and imposed an additional "temporary" tariff on agricultural goods, in a move to try to promote domestic investment in the sector. Under the new system, a 12 percent tariff applies to more than 95 percent (by value) of the products imported into Peru; a 20 percent tariff applies to most of the rest, while a few products are assessed rates (because of the additional "temporary" tariffs) of up to 25 percent. Another set of import surcharges also applies to four basic commodities: rice, corn, sugar and milk products. (The surcharge on wheat was eliminated in July 1998). Imports are also assessed an 18 percent value-added tax on top of any tariffs; domestically produced goods pay the same tax as well. Some non-U.S. exporters have preferential access to the Peruvian market because of Peru's bilateral and multilateral tariff reduction agreements.

There are virtually no barriers to investing in Peru, and national treatment for investors is guaranteed in the 1993 constitution. However, in an effort to preclude competition from foreign investors in recent privatizations of electrical utilities, COPRI, the Privatization Agency, has interpreted that a foreign company or individual is an investor only when the company or individual has actually invested, not when it is considering investing. Furthermore, a conflicting provision of law restricts the majority ownership of broadcast media to Peruvian citizens. Foreigners are also restricted from owning land within 50 kilometers from a border, but can operate within those areas through special authorization. There are no prohibitions on the repatriation of capital or profits. Under current law, foreign employees may not make up more than 20 percent of the total number of employees of a local company (whether owned by foreign or national interests) or more than 30 percent of the total company payroll, although some exemptions apply.

Customs procedures have been simplified and the customs administration made more efficient in recent years. As part of the customs service reform, Peru implemented a system of pre-shipment inspections, through which private inspection firms evaluate most incoming shipments worth more than $5,000. (Exceptions include cotton and heavy machinery). The importer must pay up to one percent of the FOB value of the goods to cover the cost of the inspection. Some U.S. exporters have complained that the inspection system contributes to customs delays and conflicts over valuation.

6. Export Subsidies Policies

The Peruvian government provides no direct export subsidies. The Andean Development Corporation, of which Peru is a member, provides limited financing to exporters at rates lower than those available from Peruvian banks (but higher than those available to U.S. companies). Exporters can receive rebates of the import duties and a portion of the value-added tax on their inputs. In June 1995 the government approved a simplified drawback scheme for small exporters, allowing them to claim a flat five-percent rebate, subject to certain restrictions. Exporters can also import, on a temporary basis and without paying duty, goods and machinery that will be used to generate exports and that will themselves be re-exported within 24 months. There are several small-scale export promotion zones where goods enter duty-free; they must pay duty if/when they enter the rest of the country.

7. Protection of U.S. Intellectual Property

Peru belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Bern Convention, Rome Convention, Phonograms Convention, Satellites Convention, Universal Copyright Convention, and the Film Register Treaty. In April 1999 the U.S. Trade Representative placed Peru on the “Special 301” Priority Watch List, where it remains because of concerns about the adequacy of IPR law enforcement, particularly with respect to the relatively weak penalties that have been imposed on IPR violators.

The government is generally proactive in promoting and protecting intellectual property rights for domestic and foreign interests. Although enforcement efforts have increased, piracy remains widespread. Industry data show that piracy in the software and motion picture industries has declined sharply since the mid-1990s. The Business Software Alliance (BSA) estimates that software piracy fell from 86 percent in 1994 to 63 percent in 1999. The International Intellectual Property Alliance (IIPA) estimates that video piracy fell from 95 percent in 1995 to 50 percent in 1998. During the same period, piracy of sound recordings increased slightly from 83 percent to 85 percent. Peru’s market for sound recordings grew so rapidly between 1995 and 1998 that estimated trade losses due to piracy increased from $16 million to $50 million. IIPA’s estimates for trade losses in all other sectors remained the same or fell slightly during the same period.

In April 1996 Peru passed two new laws to improve its intellectual property rights protection regime and bring its national laws into conformity with Andean Community decisions and other international obligations on intellectual property. Although the new laws were an improvement, they contained several deficiencies. The government believes that the Andean Community’s September 2000 adoption of Decision 486 brings its laws into conformity with the WTO TRIPS Agreement. Nonetheless, there is some question within the Andean Community about whether national law or the Community Decisions on IPR would prevail in the case of conflict between them. Although it had been previously thought that the higher standard would prevail, the Andean Community Secretariat issued rulings in 2000 which determined that Peru violated Decision 344 by issuing “second use” patents. These rulings (Andean Community resolutions 358 and 406) threaten to undermine the ability of member states to implement national laws that are stronger than Andean Community norms. U.S. pharmaceutical companies are particularly concerned that, in light of resolutions 358 and 406, ambiguities in the new Decision 486 regarding the patentability of “second use” innovations could undermine the Peruvian government’s ability to enforce second use patents. They are also concerned that Decision 486 is not sufficiently explicit regarding the confidentiality of data included with patent applications, thereby opening the way to the possible erosion of protections for such information.

Patents and Trademarks: Peru’s 1996 Industrial Property Rights Law provides an effective term of protection for patents and prohibits devices that decode encrypted satellite signals, along with other improvements. Based on an agreement reached with the U.S. government, in June 1997 the Government of Peru resolved several apparent inconsistencies with the TRIPS Agreement provisions on patent protection and most-favored nation treatment for patents. Peruvian law does not provide for pipeline protection for patents or protection from parallel imports. Although Peruvian law provides for effective trademark protection, counterfeiting of trademarks and imports of pirated merchandise are widespread.

Copyrights: Peru's Copyright Law is generally consistent with the TRIPS Agreement. However, textbooks, books on technical subjects, audiocassettes, motion picture videos and software are widely pirated. While the government, in coordination with the private sector, has conducted numerous raids over the last few years on large-scale distributors and users of pirated goods and has increased other types of enforcement, piracy continues to be a significant problem for legitimate owners of copyrights in Peru.

8. Worker Rights

Articles 28 and 42 of the Peruvian Constitution recognize the right of workers to organize, bargain collectively and strike. Out of an estimated economically active population of 10 million, only about five percent belong to unions. Close to one half the work force is employed in the informal sector, beyond government regulation and supervision.

a. *The Right of Association:* Peruvian law allows for multiple forms of unions across company or occupational lines. Workers in probational status or on short-term contracts are eligible for union membership, but cannot join the same unions as permanent employees. Union leaders complain that increasing numbers of employers are hiring workers under temporary personal service contracts to complicate union affiliation. Labor experts assert that companies prefer this type of hiring because it affords them the chance to adapt their total payroll to the business cycle without the hassle of having to seek government approval to release workers. Public employees exercising supervisory responsibilities are excluded from the right to organize and strike, as are the police and military. The amount of time union officials may devote to union work with pay is limited to 30 days per year. Membership or non-membership in a union may not be required as a condition of employment. However, there is no provision in the law requiring employers to reinstate workers fired for union activities. Although some unions have been traditionally associated with political groups, law prohibits unions from engaging in explicitly political, religious or profit-making activities. The International Labor Organization (ILO) in June 1996 called on the Peruvian government to enhance freedom of association.

b. *The Right to Organize and Bargain Collectively:* Bargaining agreements are considered contractual agreements, valid only for the life of the contract. Unless there is a pre-existing labor contract covering an occupation or industry as a whole, unions must negotiate with each company individually. Strikes may be called only after approval by a majority of all workers (union and non-union) voting by secret ballot. Unions in essential public services, as determined by the government, must provide sufficient workers, as determined by the employer, to maintain operations during the strike. Companies may unilaterally suspend collective bargaining agreements for up to 90 days if required by force majeure or economic conditions, with 15 days notice to employees. The Peruvian Congress approved legislation in 1995 and 1996 amending the 1992 Employment Promotion Law which union leaders claim restricts union freedom and the freedom to bargain collectively by making it easier to fire workers. The unions filed a complaint about this law with the ILO, and the ILO noted that the new legislation failed to effectively guarantee the protection of workers against acts of anti-union discrimination and to protect workers' organizations against acts of interference by employers.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited, as is imprisonment for debt. Nevertheless, there were two reports of such labor in informal gold mines in a remote area of Peru during 1999. However, information received during the year indicates Peruvian authorities are addressing the practice. Although the constitution does not specifically prohibit forced or bonded labor by children, Peru has ratified ILO Convention 105 on the abolition of forced labor, including forced or bonded child labor.

d. *Minimum Age for Employment of Children:* The minimum legal age for employment is 12. In certain sectors, higher minimums are in force: 14 in agricultural work; 15 in industrial, commercial or mining work; and 16 in the fishing industry. Although education through the primary level is free and compulsory, many school-aged children must work to support their families. Child labor takes place in the informal economy out of the reach of government supervision of wages or conditions. In recent years, government surveys have variously estimated the number of child and adolescent workers to be anywhere from 500,000 to 1.9 million.

e. *Acceptable Conditions of Work:* The 1993 Constitution provides for a maximum eight-hour work day, a 48-hour work week, a weekly day of rest and 30 days annual paid vacation. Workers are promised a "just and sufficient wage" (to be determined by the government in consultation with labor and business representatives) and "adequate protection against arbitrary dismissal". No labor agreement may violate or adversely affect the dignity of the worker. These and other benefits are readily sacrificed by workers in exchange for regular employment, especially in the informal sector.

f. *Rights in Sectors with U.S. Investment:* U.S. investment in Peru is concentrated primarily in the mining and petroleum sectors, and more recently in electrical generation. Labor conditions in those sectors compare very favorably with other parts of the Peruvian economy. Workers are primarily unionized, and wages far exceed the legal minimum.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		268
Total Manufacturing		192
Food and Kindred Products	66	
Chemicals and Allied Products	83	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	1	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		81
Banking		133
Finance/Insurance/Real Estate		293
Services		48
Other Industries		1,516
TOTAL ALL INDUSTRIES		2,532

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

TRINIDAD AND TOBAGO

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000[1]
Income, Production and Employment:			
Nominal GDP	5,811	6,136	7,973
Real GDP Growth (pct)	5.6	7.0	7.9
GDP by Sector:			
Agriculture	124	132	133
Manufacturing	519	557	617
Services	3,595	3,944	4,535
Petroleum	1,231	1,533	2,079
Government	554	622	593
Per Capita GDP (US$)	4,531	4,785	6,162
Labor Force (000s)	559	564	564
Unemployment Rate (pct)	14.2	13.2	12.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	12	–0.34	2.93
Consumer Price Inflation	5.6	3.7	3.2
Exchange Rate (TT$/US$)	6.30	6.30	6.30
Balance of Payments and Trade:			
Total Exports FOB	2,264	2,803	3,228

Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Exports to United States	830	1,091	1,282
Total Imports CIF	3,011	2,740	2,919
Imports from United States	1,341	1,090	975
Trade Balance	–747	63	309
Balance with United States [2]	–511	1.4	306
External Public Debt	1,469	1,474	1,704
Fiscal Deficit/GDP (pct)	–1.24	–0.95	–0.45
Current Account Deficit/GDP (pct)	–3.5	0.7	0.2
Debt Service Payments/GDP (pct)	5.0	4.6	5.7
Gold and Foreign Exchange Reserves	984	1,073	1,410
Aid from United States [3]	3.5	3.7	
Aid from Other Sources	N/A	N/A	N/A

[1] 2000 figures are all estimates based on 6 months of data, except as noted. 1998 and 1999 figures have been revised.
[2] 2000 U.S. trade with Trinidad and Tobago are estimates based on 4 months of data.
[3] Represents primarily security assistance and counter-narcotics program funding, training, equipment transfers, and in-kind contributions. Includes USIA and USDA exchanges.

Source: All statistics compiled by the Central Statistical Office (CSO), except BOP figures which are compiled by the central bank.

1. General Policy Framework

Trinidad and Tobago's substantial oil and natural gas reserves made it one of the richest countries in the Western Hemisphere during the oil booms of the seventies and early eighties. Much of the oil revenue windfall was used to subsidize state-owned companies and to fund social and infrastructure projects, which became a drain on government finances. A dramatic increase in domestic consumption contributed to overvaluation of the currency with a resulting decline in non-oil exports. The collapse of oil prices in the mid-1980s, and concurrent decrease in Trinidadian oil production caused a severe recession from which Trinidad and Tobago only recovered in 1994. Although structural reforms have begun to stimulate growth in non-hydrocarbon sectors, overall economic prospects remain closely tied to oil, gas and petrochemical prices and production.

Since 1992, the government has successfully turned the state-controlled economy into a market-driven one. In 1992 it began a large-scale divestment program and has since partially or fully privatized the majority of state-owned companies. The government has also dismantled most trade barriers, with only a small number of products remaining on a "negative list" (requiring import licenses) or subject to import surcharges.

Trinidad and Tobago aggressively courts foreign investors, and initialed a bilateral investment treaty with the United States in 1994, which came into force on December 26, 1996. Total U.S. direct investment flows have grown from US$475 million in 1995 to over US$1 billion per year in recent years.

The government uses a standard array of fiscal and monetary policies to influence the economy, including a 15 percent value-added tax (VAT) and corporate and personal income taxes of up to 35 percent. Improvements in revenue collection since 1993 have boosted VAT, income tax and customs duty revenues. This, together with additional revenues from the sale of offshore leases and tighter controls on spending, has contributed to slight fiscal surpluses since 1995. Simplification of the personal income tax regime in 1997, by eliminating many deductions in favor of a set standard deduction, and restructuring of the Board of Inland Revenue were designed to further boost revenue collection. Currently, tax collection systems are being modernized with the help of U.S. government advisors.

2. Exchange Rate Policy

In April 1993 the government removed exchange controls and floated the TT dollar. The Central Bank loosely manages the rate through currency market interventions and consultations with the commercial banks. In 1996 foreign exchange pressure mounted, and a decision by the Central Bank to allow a freer float led to a depreciation, which went as low as TT$6.23 to US$1.00 in December 1996. Since early November 1997, the rate has hovered around TT$6.29 to US$1.00. Foreign exchange supply depends heavily on the quarterly tax payments and purchases of local goods and services by a small number of large multinational firms, of which the most prominent are U.S.-owned. Foreign currency for imports, profit remittances, and repatriation of capital is freely available. Only a few reporting requirements have been retained to deter money laundering and tax evasion.

3. Structural Policies

Pricing Policies: Generally, the market determines prices. The government maintains domestic price controls only on sugar, schoolbooks, and pharmaceuticals.

Tax Policies: Imports are subject to the CARICOM Common External Tariff (CET). Since July 1, 1998, CARICOM tariff levels have been reduced to a targeted range of zero to 20 percent. National stamp taxes and import surcharges on manufactured items were repealed as of January 1, 1995.

By the end of 1994, almost all non-oil manufactured products and most agricultural commodities were removed from the Import Negative List, which previously required licenses for certain imports. Initially, most agricultural products that had benefited from "negative list" protection were instead subject to supplementary import surcharges of 5 to 45 percent. The list of products subject to import surcharges has now been reduced to two items: poultry and sugar.

The standard rate of Value Added Tax (VAT) is 15 percent; however, many basic commodities are zero-rated. Excise tax is levied only on locally produced petroleum products, tobacco and alcoholic beverages. The corporate tax rate was lowered in 1994 from a maximum of 45 percent to 38 percent, and again in 1995 to 35 percent. While the tax code does not favor foreign investors over local investors, profits on sales to markets outside CARICOM are tax exempt, which benefits firms with non-CARICOM connections.

Income tax rates are from 28 percent on the first US$50,000 of chargeable income and 35 percent thereafter. The taxpayer is entitled to an allowance of US$20,000. Trinidad and Tobago and the United States have entered into a double taxation treaty.

Regulatory Policies: All imports of food and drugs must satisfy prescribed standards. Imports of meat, live animals and plants, many of which come from the United States, are subject to specific regulations. The import of firearms, ammunition and narcotics are rigidly controlled or prohibited.

4. Debt Management Policies

In the second quarter of 1998 Trinidad and Tobago completed repayment of a US$335 million International Monetary Fund loan and enjoys excellent relations with the international financial institutions. Its major lender is the Inter-American Development Bank (IDB).

Since 1997, Trinidad's external debt has declined each year as has its debt service ratio. There has, however, been a slight increase in domestic debt as the government has increasingly looked internally for financing. The lower total debt burden has allowed the government more flexibility in lowering import duties and trade barriers, benefiting U.S. exports.

5. Aid

The majority of U.S. assistance to Trinidad and Tobago is in the form of support for justice and security and counter-narcotics programs. The Department of State has provided US$400,000 in anti-narcotics assistance in 1997, US$500,000 in 1998, US$700,000 in 1999, and US$400,000 in 2000. The United States has also transferred to Trinidad and Tobago four aircraft and two Coast Guard patrol craft to Trinidad and Tobago in the past year. In addition, the Department of Defense provides US$250,000 per year in Foreign Military Finance grants (FMF), and US$125,000 in International Military Education and Training (IMET) funding.

6. Significant Barriers to U.S. Exports

Trinidad and Tobago is highly import-dependent, with the United States supplying about 50 percent of total imports since 1997. Only a limited number of items remain on the "negative list" (requiring import licenses). These include poultry, fish, oils and fats, motor vehicles, cigarette papers, small ships and boats, and pesticides.

Foreign ownership of service companies is permitted. Trinidad and Tobago currently has one wholly U.S.-owned bank, several U.S.-owned air courier services, and one U.S. majority-owned insurance company.

The Trinidad and Tobago Bureau of Standards (TTBS) is responsible for all trade standards except those pertaining to food, drugs and cosmetic items, which the Chemistry, Food and Drug Division of the Ministry of Health monitors. The TTBS uses the ISO 9000 series of standards and is a member of ISONET. Standards, labeling, testing and certification rarely hinder U.S. exports.

Foreign direct investment is actively encouraged by the government, and there are few if any remaining restrictions. Investment is screened only for eligibility for government incentives and assessment of its environmental impact. Both tax and non-tax incentives may be negotiated. A bilateral investment treaty with the United States, granting national treatment and other benefits to U.S. investors came into force on December 26, 1996. The repatriation of capital, dividends, interest, and other distributions and gains on investment may be freely transacted. Several foreign firms have alleged that there are inconsistencies and a lack of clear rules and transparency in the granting of long-term work permits. These generally fall into two categories, either that a permit is not granted to an official of a company which is competing with a local firm, or that the authorities threaten not to renew a permit because a foreign firm has not done enough to train and promote a Trinidadian into the position.

Government procurement practices are generally open and fair; however, both local and foreign investors have called for greater transparency in the procurement process. Some government entities request pre-qualification applications from firms, then notify pre-qualified companies in a selective tender invitation. Trinidad and Tobago signed the Uruguay Round Final Act on April 15, 1994 and became a WTO member on April 1, 1995, but is not a party to the WTO Government Procurement Agreement.

Customs operations are being restructured and streamlined with the help of U.S. government advisors. UNCTAD's ASYCUDA trade facilitation system (automated system for customs data) was adopted on January 1, 1995. Customs clearance can be time consuming because of bureaucratic delays.

7. Export Subsidies Policies

The government does not directly subsidize exports. The state-run Trinidad and Tobago Export Credit Insurance Company insures up to 85 percent of export financing at competitive rates. The government also offers incentives to manufacturers operating in free zones (export processing zones) to encourage foreign and domestic investors. Free zone manufacturers are exempt from customs duties on capital goods, spare parts and raw materials, and all corporate taxes on profits from manufacturing and international sales.

8. Protection of U.S. Intellectual Property

Trinidad and Tobago signed an Intellectual Property Rights Agreement with the United States in 1994 that, along with Trinidad's commitments under the WTO TRIPS agreement, necessitated revisions of most IPR legislation. While the government's awareness of the need for IPR protection has improved, enforcement of existing regulations remains lax.

Trinidad and Tobago is a member of the World Intellectual Property Organization and the International Union for the Protection of Industrial Property. It is a signatory to the Universal Copyright Convention, the Bern Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, the Classification Treaties, the Budapest Treaty, and the Brussels Convention. It has also signed the 1978 UPOV Convention for the Protection of New Varieties of Plants and the Trademark Law Treaty. The former was proclaimed into law on January 30, 1998, and the latter came into force on April 18, 1998. As a member of the Caribbean Basin Initiative, the government is committed to prohibiting unauthorized broadcasts of U.S. programs.

The 1997 Copyright Act became effective as of October 1, 1997. The act was written with the assistance of the World Intellectual Property Organization, and was forwarded to the United States for comment in compliance with the U.S./TT Bilateral Memorandum of Understanding on Intellectual Property Rights. The new act offers protections equivalent to those available in the United States. Enforcement of IPR laws remains a concern under the new act. The Copyright Organization of Trinidad and Tobago has stepped up its enforcement activity since the new law came into effect, but has primarily targeted unauthorized use of locally produced music products. Video rental outlets in Trinidad and Tobago are replete with pirated videos, and pirated audiocassettes are sold openly in the street and in some stores. Local Cable TV operators feel that they will have to increase rates or eliminate some channels to comply with the new law.

The Patents Act of 1996 introduced internationally accepted criteria for registration of universal novelty, inventive step and industrial applicability, along with a full search and examination procedure. The act extended the period of protection to 20 years with no possibility of extension.

The new Trademark Amendment Act came into effect in September 1997. Trademarks can be registered for a period of 10 years, with unlimited renewals. Counterfeiting of trademarks is not a widespread problem in Trinidad and Tobago.

New technologies: Larger firms in Trinidad and Tobago generally obtain legal computer software, but some smaller firms use wholly or partially pirated software or make multiple copies of legally purchased software. Licensed cable companies are faced with unlicensed cable operators and satellite owners who connect neighborhoods to private satellites for a fee. Licensed cable companies provide customers with some U.S. cable channels, for which they have not obtained rights, arguing that since these services are not officially for sale in Trinidad, they are not stealing them.

Given the popularity of U.S. movies and music, and the dominance of the United States in the software market, U.S. copyright holders are the most heavily affected by the lack of copyright enforcement. By signing the IPR agreement, the government has acknowledged that IPR infringement is a deterrent to investment and that it is committed to improving both legislation and enforcement.

9. Worker Rights

a. *The Right of Association:* The 1972 Industrial Relations Act provides that all workers, including those in state-owned enterprises, may form or join unions of their own choosing without prior authorization. Union membership has declined, with an estimated 20 to 28 percent of the work force organized in 14 active unions. Most unions are independent of the Government or political party control, although the Prime Minister was formerly president of the Sugar Workers Union. The act prohibits anti-union activities before a union is legally registered, and the Labor Relations Act prohibits retribution against strikers. Both laws contain grievance procedures.

b. *The Right to Organize and Bargain Collectively:* The right of workers to bargain collectively is established in the Industrial Relations Act of 1972. Antiunion discrimination is prohibited by law. The same laws apply in the export processing zones.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is not explicitly prohibited by law, but there have been no reports of its practice.

d. *Minimum Age for Employment of Children:* The minimum legal age for workers is 12 years. Children from 12 to 14 years of age may only work in family businesses. Children under the age of 18 may legally work only during daylight hours, with the exception of 16 to 18 year olds, who may work at night in sugar factories. The probation service in the Ministry of Social Development and Family Services is responsible for enforcing child labor provisions, but enforcement is lax. There is no organized exploitation of child labor, but children are often seen begging or working as street vendors

e. *Acceptable Conditions of Work:* In June 1998 the government passed the Minimum Wages Act which established a minimum wage of TT$7 (US$1.10) per hour, a 40 hour work week, time and a half pay for the first four hours of overtime on a workday, double pay for the next four hours, and triple pay thereafter. For Sundays, holidays, and off days the Act also provides for double pay for the first eight hours and triple pay thereafter. The Maternity Protection Act of 1998 provides for maternity benefits. An Occupational Safety and Health Act is currently before Parliament.

The Factories and Ordinance Bill of 1948 sets occupational health and safety standards in certain industries and provides for inspections to monitor and enforce compliance. The Industrial Relations Act protects workers who file complaints with the Ministry of Labor regarding illegal or hazardous working conditions. Should it be determined upon inspection that hazardous conditions exist in the workplace, the worker is absolved for refusing to comply with an order that would have placed him or her in danger.

f. *Rights in Sectors with U.S. Investment:* Employee rights and labor laws in sectors with U.S. investment do not differ from those in other sectors.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		304
Total Manufacturing		1,271
Food and Kindred Products	1	
Chemicals and Allied Products	(1)	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	(1)	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999—Continued

[Millions of U.S. Dollars]

Category	Amount	
Transportation Equipment	0	
Other Manufacturing	35	
Wholesale Trade		743
Banking		–2,561
Finance/Insurance/Real Estate		19,867
Services		154
Other Industries		171
TOTAL ALL INDUSTRIES		19,948

([1]) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

URUGUAY

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated] [1] [2]

	1998	1999	2000
Income, Production and Employment:			
Nominal GDP [3]	22.5	21.0	20.8
Real GDP Growth (pct) [4]	4.6	–3.2	0.0
GDP Growth by Sector (pct):			
Agriculture	6.9	–7.8	–3.0
Manufacturing	2.3	–8.4	–2.5
Services	3.6	1.3	2.0
Government	N/A	N/A	N/A
Per Capita GDP (US$)	6,827	6,348	6,267
Labor Force (000s)	1,238	1,220	1,225
Unemployment Rate (pct)	10.1	11.3	13.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	18.4	8.9	5.5
Consumer Price Inflation	8.6	4.2	5.7
Exchange Rate [5]	10.5	11.3	12.1
Balance of Payments and Trade:			
Total Exports FOB	2.8	2.2	2.4
Exports to United States (US$ millions)	158	153	200
Total Imports CIF	3.8	3.4	3.7
Imports from United States (US$ millions)	432	375	320
Trade Balance (FOB–CIF)	–1.0	–1.2	–1.3
Balance with United States (US$ millions)	–274	–222	–120
External Public Debt (net)	2.4	2.4	2.5
Fiscal Deficit/GDP (pct)	0.9	3.9	3.3
Current Account Deficit/GDP (pct)	2.1	2.9	2.5
Debt Service Payments/GDP (pct)	2.6	4.3	4.0
Gold and Foreign Exchange Reserves (net)	2.1	2.4	2.4
Aid from United States (US$ millions)	8.1	2.8	3.9
Aid from All Other Sources (US$ millions) [6]	12.9	N/A	N/A

[1] Data in Uruguayan Pesos was converted into U.S. dollars at the average interbanking selling rate for each year.
[2] 2000 figures are all estimates based on available data as of October 2000.
[3] At producer prices.
[4] Calculated based on GDP in constant 1983 pesos.
[5] Annual average Uruguayan peso/U.S. dollar.
[6] Non-reimbursable.

Sources: Uruguayan Central Bank, Uruguayan National Institute of Statistics (INE) and U.S. Embassy Montevideo.

1. General Policy Framework

Uruguay is a market-oriented economy. The current administration, which took office in March 2000, has declared its intent to intensify an economic liberalization process that has been ongoing for a decade. Regional integration (MERCOSUR and FTAA), reduced deficit spending, government downsizing and lower inflation are goals of the two political parties in the ruling coalition and the past three administrations.

Social indicators place Uruguay among the most advanced countries in Latin America. Uruguay has the highest literacy rate, the most equitable income distribution and the lowest urban poverty in Latin America. Although down from 1998's level, 1999 per capita gross domestic product (GDP) of $6,350 puts Uruguay in the World Bank's upper-middle income grouping. The UNDP Human Development report places it in the category of countries with high human development.

Uruguay's risk rating for long-term debt issued in foreign currency improved in 1997 to BBB minus (by Standard & Poor's, Duff & Phelps and Europe's IBCA and, Baa3 by Moody's), reaching Investment Grade Status and enabling U.S. pension funds to invest in Uruguay's sovereign debt. Uruguay accesses funds in the international financial market at one of the lowest rates in Latin America.

The economy has performed well in the last decade with good rates of per capita GDP growth, relatively low budget and current account deficits and declining inflation rates. But in 1999 it entered what has become its worst recession in fifteen years. GDP fell 3.2 percent, finishing the year at $21 billion, and declined by a further 1 percent in the first half of 2000. Zero growth is likely in 2000. Reasons for the decline include reduced export competitiveness from the Brazilian devaluation, diminished activity in Argentina and Brazil, higher international interest rates and historically low commodity prices. Harsh weather and electoral-year uncertainty throughout most of 1999 contributed to the poor economic performance. 1999 exports fell roughly 20 percent to $2.2 billion, and imports declined by 12 percent to $3.4 billion. Imports from the United States fell 18 percent, a significant shift from 16 percent annual average growth between 1993 and 1998. The public sector deficit grew from 0.9 percent of GDP in 1998 to 3.9 percent in 1999 and to 4.6 percent in June 2000 (on a 12-month basis), due to a decline in tax collection (resulting from the slowdown in economic activity) and an increase in public expenditure (generated by a counter-cyclical fiscal policy in 1999 and increased expenditures in an electoral year).

The inflation rate decreased from 130 percent in 1990 to 4.2 percent in 1999, the lowest in five decades, but is expected to range between 5.5 percent to 6.0 percent in 2000. Price controls are limited to a small set of products and services for public consumption, such as bread, milk, passenger transportation, utilities and fuels.

The historical basis of the Uruguayan economy has been agriculture (10 percent of GDP), particularly livestock production. Agriculture remains important both directly (beef, wool and rice) and indirectly for inputs to other sectors (textiles, leather, meat and forestry). Industry (18 percent of GDP), has undergone a strong reconversion process fostered by MERCOSUR (the Southern Cone Common Market) integration. The service sector, particularly tourism and financial services, dominates the economy, accounting for over 60 percent of GDP. Banking benefits from Uruguay's open financial system.

Uruguay is a founding member of MERCOSUR, a common market created in 1991 and composed of Argentina, Brazil, Paraguay and Uruguay, with Chile and Bolivia as associate members. Montevideo is the administrative capital of MERCOSUR, and Uruguay is the geographical center of MERCOSUR's most populated and richest area. Uruguay's trade with its MERCOSUR partners now accounts for over 40 percent of Uruguay's overall trade. Tariff rates were lowered to zero for most MERCOSUR products on January 1, 2000. A MERCOSUR common external tariff (CET) entered into effect on January 1, 1995 for imports from non-MERCOSUR countries, ranging between zero to 20 percent. The 20 percent level was raised to 23 percent in late 1997 and is due to be reduced to 20 percent again on December 31, 2000. The MERCOSUR CET does not yet cover capital, informatic and telecommunication goods. Full coverage is scheduled for 2006.

MERCOSUR faced serious growing pains in late 1998 and all of 1999 that seriously harmed the trade flows amongst its partners. Intra-MERCOSUR trade declined 25 percent in 1999 due to Brazil's devaluation, lack of effective macroeconomic coordination, political problems in Paraguay, the imposition of trade-restrictive measures in Argentina and Brazil, and a war of incentives between Argentina and Brazil to attract foreign investment. The MERCOSUR Presidents "relaunched" MERCOSUR at the July 2000 Buenos Aires Presidential Summit by addressing several pressing issues, including the elimination of trade-restrictive measures, improving macroeconomic coordination and reducing tariffs on capital goods not produced in the region, among others.

The United States is the fourth largest Uruguayan trading partner, after Argentina, Brazil and the European Union, and has enjoyed a rapidly growing trade surplus with Uruguay since 1991. The U.S. share of Uruguay's imports has increased slightly over the last decade, from 9 percent to 11 percent ($375 million), and the new government favors expanding trade with the United States, Mexico and Canada. The most significant U.S. exports to Uruguay are mechanical and electrical machinery, especially high-tech items. The United States provides roughly one-fourth of Uruguay's overall imports of those goods and roughly forty percent of overall imports of optical and medical instruments. The United States bought seven percent of Uruguay's exports ($153 million) and the most significant purchases from Uruguay include leather, frozen and chilled meat, footwear and fish.

The United States is the largest foreign investor in Uruguay, according to a recent government study, with a 32 percent share of overall foreign direct investment (FDI). Argentina and Spain are next in the ranking with 20 percent and 11 percent of overall FDI, respectively. More than 100 American firms operate in Uruguay, and a few are using Uruguay as a regional office or have MERCOSUR-integrated production.

2. Exchange Rate Policy

The Uruguayan government allows the peso to float against the dollar within a three-percent range. This system has been in effect since 1991 and the band's width and rhythm of growth have been modified on several occasions. The band currently rises by 7.4 percent per year and the Central Bank may buy and sell dollars to keep the peso's value within the band. Devaluation outpaced inflation by three percent in 1999. Total net foreign exchange reserves amounted to $2.6 billion as of September 2000, equivalent to more than double the money in circulation and enough to service external debts for two years; these reserves offer a strong backup for the exchange rate.

Uruguay's monetary policy is geared at keeping inflation under control, using the nominal exchange rate as the main instrument. Central Bank intervention to defend the currency entails a loss of control over the money supply, limiting the effectiveness of monetary policy that is carried out through the issuance of very short-term paper. A large part of the economy is dollarized. There are no restrictions on the purchase of foreign currency or remittance of profits abroad and foreign exchange can be freely obtained.

3. Structural Policies

Uruguay switched from an import-substitution model that depressed growth in the sixties to an export-led model in the early seventies, when it launched a tax reform, liberalized foreign trade and the financial sector and opened the economy to foreign investment. The eighties was a "lost decade" for Uruguay (and for many other Latin American countries). The need to finance high public deficits and to maintain the exchange rate, along with the existence of easily available international funds, induced the government to borrow heavily from abroad. In November 1982 the crawling-peg exchange rate system was abandoned and the peso was devalued almost 100 percent from 14 to 28 pesos per dollar. GDP plunged 9.4 percent in 1982 and further declined by 5 percent and 1 percent in 1983 and 1984.

Growth recovered in 1985, averaging 3.5 percent between 1985 and 1999. Uruguay implemented tight monetary and fiscal policies in the nineties, which included a reduction in size and scope of the public sector, reduced inflation and a transformation of the pension system intended to lower a structural government deficit in the long run. (Prior to the reform the social security deficit amounted to six percent of GDP). Many activities, formerly restricted to the state, have been transferred to the private sector under contract, concession or sale.

Since taking office in March 2000, the Batlle administration has demonopolized cement and asphalt production and has announced plans to deregulate and demonopolize other areas such as public works, telecommunications and labor insurance. There is, however, no timetable for the announced de-monopolization of public monopolies. The government has also announced its intention to transfer public works projects to the private sector under the build, operate and transfer system (BOT), but has provided no concrete deadlines.

4. Debt Management Policies

Uruguay has never defaulted on its debts. Net external debt has been decreasing steadily as a percentage of GDP since 1988 and Uruguay has been extending the maturity of its debt since 1996. As of first quarter 2000, Uruguayan net external debt was $2.9 billion, 86 percent of which is public. While all private sector debt is short-term (one year or less), public sector debt has a longer maturity (fifty-eight percent of the latter matures after the year 2002). Debt service in 1999 was $900 million, equivalent to 4.3 percent of GDP. The vast majority of public debt is dollar-denominated. In the mid-term, the current administration plans to lower the national debt and the budget deficit.

Reimbursable external loans amounted to $1.2 billion between 1994 and 1998. The Inter-American Development Bank was the single most important lender with half of overall external loans in the period, followed by the World Bank with one-fourth. An IMF stand-by program is in place until 2001. Uruguay does not usually draw funds from IMF credits but keeps them in reserve as a precaution.

5. Aid

Uruguay receives little non-military aid from the United States. During 1999 it received almost three million dollars from the United States for peacekeeping, training and equipment assistance. Bilateral counter narcotics assistance totaled $100,000. A Peace Corps program closed in 1997.

Using six million dollars from a debt reduction program, the U.S. and Uruguayan governments jointly manage the Fund of the Americas. This Fund is designed to use monies that would otherwise be due to the U.S. government for local environmental and child welfare programs. Since 1993 it has given out over four million dollars to 70 projects, directly benefiting over seventy thousand people. The Fund is a big player in Uruguay's non-governmental sector, having provided 82 percent of all environment-related international grants to non-governmental organizations (NGOs) and 54 percent of all international grants to childhood-related NGOs between 1995 and 1998. It has also provided training to 650 people throughout the country belonging to NGO members since 1998.

Total non-reimbursable aid received amounted to 129 million dollars between 1994 and 1998, according to the 1998 United Nations Annual Report on Cooperation for Development. Table 1 shows the most important donors and the amount of their donations from 1994 to 1998 in millions of dollars. The German Agency for Technical Cooperation (GTZ) was the most important single donor, followed by the United Nations Development Program (UNDP) and the United States.

Table 1—Main donors. Total grants from 1994 to 1998 (in US$ millions)

	Accumulated 1994–98
TOTAL	129
German Agency for Technical Cooperation (GTZ)	16.5
United Nations Development Program UNDP	9.6
United States	8.6
European Union (EU)	5.0
Organization of American States (OAS)	4.7
United Nations Fund for Childhood (UNICEF)	3.2
International Organization for Migrations	2.9
World Health Organization (WHO)	2.2
International Agency for Atomic Energy	2.0
Inter-American Foundation (IAF)	1.6

Source: United Nations Annual Report on Cooperation for Development, 1998.

6. Significant Barriers to U.S. Exports

Certain imports require special licenses or customs documents. Among these are pharmaceuticals, some types of medical equipment and chemicals, firearms, radioactive materials, fertilizers, vegetable products, frozen embryos, livestock, bull semen, anabolics, sugar, seeds, hormones, meat and vehicles. To protect Uruguay's important livestock industry, imports of bull semen and embryos also face certain numerical limitations and must comply with animal health requirements, a process that can take a long time. Bureaucratic delays also add to the cost of imports, although importers report that a "de-bureaucratization" commission has improved matters.

Few significant restrictions exist in services. U.S. banks continue to be very active. Restrictions on professional services such as law, medicine or accounting are similar to most countries. Persons with non-Uruguayan credentials who wish to practice their profession in Uruguay must prove equivalent credentials to those required of locals. Similarly, travel and ticketing services are unrestricted. A law allowing foreign companies to offer insurance (except work-related injury) coverage in Uruguay was passed in October 1993, although the former monopoly provider still maintains a big market share and regulation of the insurance sector is weak.

There have been significant limitations on foreign equity participation in certain sectors of the economy. Investment areas regarded as strategic require government authorization. These include electricity, hydrocarbons, banking and finance, railroads, strategic minerals, telecommunications and the press. Uruguay has long owned and operated state monopolies in petroleum, rail freight, telephone service and port administration. However, passage of port reform legislation in April 1992 allowed for privatization of various port services. The state-owned natural gas company was privatized in late 1994. Both private consortia and the state-owned phone company (ANTEL) operate cellular telecommunications. Legislation to privatize ANTEL was overturned by referendum in 1992. Several state-owned firms and even city municipalities however, grant the concession of specific services to privately owned companies.

Government procurement practices are well defined, transparent and closely followed. Bid awards, however, often are drawn out and caught up in controversy. Tenders are generally open to all bidders, foreign and domestic. A government decree, however, establishes that local products or services of equal quality to, and no more than ten percent more expensive than foreign goods or services, shall be given preference. Among foreign bidders, preference will also be given to those who offer to purchase Uruguayan products. Uruguay has not signed the GATT/WTO government procurement code.

The only exemptions to tariff regulations in the context of anti-dumping legislation are minimum export prices, fixed in relation to international levels and in line with commitments assumed under the WTO. These are applied to neutralize unfair trade practices that threaten to damage national production activity or delay the development of such activities, and are primarily directed at Argentina and Brazil.

Reference prices were eliminated in 1994, but minimum export prices are still applied on a few items, namely textiles, clothing and sugar.

7. Export Subsidies Policies

The WTO agreement on Subsidies and Countervailing Measures has been adopted by law but no regulations implementing the agreement have been issued.

The government provides a nine-percent subsidy to wool fabric and apparel producers using funds from a tax on greasy and washed wool exports.

Enterprises that export vehicles (or motor parts) wholly or partly constructed in Uruguay may benefit from a customs concession, applicable to the importation of motor vehicles assembled abroad.

8. Protection of U.S. Intellectual Property

Uruguay is a member of the World Intellectual Property Organization (WIPO) and a party to the Bern Convention, the Universal Copyright Convention (UCC,) and the Paris Convention for the Protection of Industrial Property. Uruguay's intellectual property rights (IPR) regime does not, however, yet meet international standards.

The most serious lack of IPR protection is the lack of a modern copyright law. Uruguay's copyright law dates to 1937. Uruguay affords copyright protection to artistic works, including movies, books, records and videos. Software is subject to judicial interpretation each time a case is presented. Since it was not explicitly mentioned in the 1937 law, not all judges accept that software should be protected. Despite legal protection, enforcement of copyrights for software is still weak. The International Intellectual Property Rights Alliance (IIPA) estimates pirating of business application software and entertainment software of 67 percent and 70 percent in 1999. It also estimated losses due to software piracy of $23 million in 1999. There is also considerable pirating of videotapes and music discs and cassettes. IIPA estimated that trade losses from copyright piracy of books, motion pictures, sound recordings and musical compositions were over $8 million for 1999.

A new copyright bill was sent to Parliament in 1999, but was not approved. In 2000 Parliament split the copyright bill in two pieces, the first one regulating software and the other one on other copyright-related issues. The software bill entered the House of Representatives in October 2000. The Executive is pushing for approval of both bills in 2000.

Uruguay was placed on the "watch list" during the 1999 "Special 301" review due to its failure to meet its international obligations for IPR protection. It remained on the watch list in 2000. IIPA petitioned USTR to review Uruguay's Generalized System of Preferences (GSP) benefits due to its continued failure to meet its TRIPS obligations.

The government approved a trademark law in 1998 that upgrades trademark legislation to TRIPS standards. Foreign trademarks may be registered in Uruguay and receive the same protection as domestic trademarks. The law provides that the registration of a trademark will last ten years and that it can be renewed as many times as desired. It also provides for six month-to-three years in prison for violations. Registering a foreign trademark without proving a legal commercial connection with the trademark is not possible and enforcement of trademark rights is good.

The government also passed a patent law in 1999 that provides that invention patents have a 20-year term of protection from the date of filing. Patents of utility models and industrial designs have a 10-year term protection from the date of filing, that may be extended once for five more years. The law provides a lax definition of compulsory licensing and a vague determination of the "adequate remuneration" to be paid to the patent holder. U.S. pharmaceutical industry representatives are unhappy with the law, believing that its compulsory licensing requirements are not TRIPS consistent.

9. Worker Rights

a. *The Right of Association:* The constitution guarantees the right of workers to organize freely and encourages the formation of unions. Labor unions are independent of government control.

b. *The Right to Organize and Bargain Collectively:* Collective bargaining takes place on a plant-wide or sector-wide basis, with or without government mediation, as the parties wish.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited by law and in practice.

d. *Minimum age for employment of children:* Children as young as 12 may be employed if they have a special work permit. Children under the age of 15 may not perform industrial jobs. Children under the age of 18 may not perform dangerous, fatiguing, or night work, apart from domestic employment.

e. *Acceptable Conditions of Work:* There is a legislated minimum monthly wage ($86 as of September 2000). The minimum wage functions, however, more as an index for calculating wage rates than as a true measure of minimum subsistence levels, and it would not provide a decent standard of living for a worker and family. This wage is not binding for the vast majority of the economic sectors that pay significantly higher salaries. The industrial and commercial standard workweeks are 48 hours and 44 hours, respectively with overtime compensation. Workers are protected by health and safety standards, which appear to be adhered to in practice. There are tax incentives for companies that hire young people.

f. *Rights in Sectors with U.S. Investment:* Workers in sectors in which there is U.S. investment are provided the same protection as other workers. In many cases, the wages and working conditions for those in U.S.-affiliated industries appear to be better than average.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		154
Food and Kindred Products	32	
Chemicals and Allied Products	37	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	1	
Electric and Electronic Equipment	0	
Transportation Equipment	3	
Other Manufacturing	82	
Wholesale Trade		67
Banking		231
Finance/Insurance/Real Estate		120
Services		(1)
Other Industries		16
TOTAL ALL INDUSTRIES		614

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

VENEZUELA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1998	1999	2000 [1]
Income, Production and Employment:			
Nominal GDP [2]	95.0	102.0	107.1
Real GDP Growth (pct) [3]	–0.1	–7.2	3.0
GDP by Sector:			
Agriculture	–0.6	–2.0	2.0
Manufacturing	–5.6	–10.0	3.0
Services	0.1	–6.0	5.0
Government	0.9	1.5	4.5
Per Capita GDP (US$)	4,087	4,302	4,427
Labor Force (000s)	9,907	10,225	10,188
Unemployment Rate (pct)	11.0	14.5	13.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	18.6	19.9	23.2
Consumer Price Inflation	29.9	20.0	15.9
Exchange Rate (BS/US$ annual average)			
Official	549.0	607.06	682.0
Parallel	549.0	607.06	682.0
Balance of Payments and Trade:			
Total Exports FOB [4]	17.6	20.8	31.6
Exports to United States [5]	9.3	11.3	17.9
Total Imports CIF [4]	14.8	13.2	14.7
Imports from United States [5]	6.5	5.4	5.3
Trade Balance [4]	2.8	7.6	16.9
Balance with United States [5]	2.8	5.9	12.6
External Public Debt	22.9	22.2	20.9
Fiscal Surplus (Deficit)/GDP (pct)	–4.1	–2.6	–1.7
Current Account Surplus (Deficit)/GDP (pct)	–1.8	3.6	12.4
Debt Service Payments/GDP (pct)	7.8	5.8	5.6
Gold and Foreign Exchange Reserves	14.8	15.4	17.6
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 2000 figures are all estimates based on data available as of October.
[2] GDP at market value.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.
[5] Source: U.S. Department of Commerce; exports FAS, imports customs basis; 2000 figures are estimates based on data available as of October.

1. General Policy Framework

Over the past twelve months, the Venezuelan economy has experienced significant volatility due to a series of major political and economic events. In December 1999 the electorate approved a constitution with several radical elements, producing uncertainty about the orientation of the economy. Precisely as the country voted, torrential rains ravaged Venezuela's north coast, resulting in massive mudslides with substantial loss of life and property. On the positive side, as the year 2000 progressed, Venezuela enjoyed a windfall in state revenue from the rapid rise in oil prices. As of September 30, the average price for Venezuelan oil stood at $26.31/bbl, a rise of $10.27/bbl from the 1999 average. This substantial price increase has produced revenues of $14.1 billion for the government treasury and has set the stage for significantly higher government expenditures.

In the political sphere, on July 30 the country re-elected President Hugo Chavez Frias for a new six-year term in country-wide elections. This election introduced major changes in the government structure from the federal to the municipal level. President Chavez's strong populist credentials were reflected in his proposed 2001 federal budget ($31.6 billion) which anticipates a 15 percent growth in expenditures, principally for social programs and government-financed infrastructure projects. Surging oil revenues have raised the country's gross foreign reserves to more than $19.5 billion as of September 30. Economic growth increased to 1.5 percent for the first six months (after a decline of 7.2 percent in 1999) and could reach 3.0 percent with government spending leading the way.

The National Assembly is currently considering a so-called "Enabling Law," an often-used mechanism that would grant expansive legislative authority to President Chavez for a period of one year. Whether this process will improve or complicate the trade environment is unclear. It does give the Chavez government the mechanism to make rapid, sweeping changes to investment and tax framework, but the Enabling Law, as presently written, is short on specifics. Despite his strong populist positions, Chavez has consistently called for increases in foreign investment, and has opened several economic sectors previously closed to foreign participation, notably the telecommunications and energy sectors. Additional progress was made late last year when the United States and Venezuela signed and ratified the Bilateral Tax Treaty, which will facilitate trade through standardized tax treatment of corporate earnings. The long-discussed Bilateral Investment Treaty between the two countries is still in negotiations, but progress on this important issue could occur this year.

Overall, Venezuela is making steady progress in the development of an economic environment characterized by transparency and free-market principles. Although some important economic sectors remain under state control (i.e. petroleum, and to a large degree mining), more and more of the Venezuelan economy is being opened to foreign participation. There is cause for concern regarding the concentration of power in the country's executive branch, particularly in view of the strong populist rhetoric put forth by President Chavez. But within the realm of law, Venezuela is slowly but steadily creating an economic climate that promotes foreign trade and investments. These conditions could produce significant trade opportunities for U.S. firms in the coming year.

2. Exchange Rate Policy

Exchange controls on the Venezuelan bolivar were eliminated in 1996 when the Ministry of Finance returned control of the currency to the Central Bank of Venezuela. The bank has maintained the bolivar within a band of 7.5 percent centered on a gradually depreciating target exchange rate. The target rate had been allowed to depreciate at a rate of 1.3 percent per month. This rate was initially set in January 1998. In June 2000 the central bank modified the target to 1.0 percent per month. Over the past two years, depreciation of the bolivar has not kept up with the rate of inflation, but convergence is occurring as the core inflation rate gradually dissipates. Despite the negative impact that the strong bolivar has on non-oil exports, the government is expected to keep the band system for the foreseeable future. Central bank foreign reserves are sizable and growing due to rising oil prices, and are more than adequate to support the gradually devaluing currency. The central bank has discussed adopting a fixed exchange rate, but no near-term action is expected.

3. Structural policies

Pricing Policies: The government in recent years has lifted price controls on basic goods and services. Now only gasoline and those pharmaceuticals with fewer than four competitive products remain subject to price controls. The government eliminated its subsidy on gasoline in 1997.

Tax Policies: Venezuela's National Assembly approved the U.S.-Venezuelan Bilateral Tax Treaty in August 1999. The U.S. Senate followed suit in November 1999, and the treaty entered into effect. This treaty eliminates double tax withholding and standardizes information sharing between the tax authorities of the two countries. Venezuela still experiences difficulty with the collection and reconciliation of taxes; nevertheless, its system is gradually making the progress needed to support a growing economy and increased international trade.

The maximum income tax rate in Venezuela for individuals and corporations is 34 percent. Venezuelan law does not differentiate between foreign and Venezuelan-owned companies, except in the petroleum and mining sectors. Hydrocarbon revenues are subject to a 67.7 percent income tax, in addition to a 16.7 percent royalty payment on production. In 1998, in a move criticized by some Petroleos de Venezuela, S.A. (PDVSA) executives, the government required PDVSA to pay a one-time "dividend" of $1.4 billion to help the Venezuelan government fund its fiscal deficit. Most joint ventures with PDVSA are subject to the same tax rates, except for those involved in the development and refining of heavy and extra heavy crudes and off shore natural gas, which are subject to a reduced income tax rate of 34 percent. The government announced in September 1996 that current and future projects involving extra heavy crude oil would also be entitled, on a case by case basis, to temporary reductions in the 16.7 percent royalty payment to as low as 1.5 percent. These reductions are granted for the development phase of the heavy crude projects.

Since 1993, the government has imposed a one-percent corporate assets tax, assessed on the gross value of assets (with no deduction for liabilities) after adjustment for depreciation. The Chavez administration began making important changes to the tax system in an effort to raise revenues in 1999. Last year, the government imposed a 0.5 percent bank debit tax and replaced its wholesale tax (ICVSM) with a value-added tax (IVA). The bank debit tax was eliminated early this year, and the value-added tax rate was lowered to 14.5 percent, 2 percent lower than the rate of the wholesale tax it replaced. The IVA also eliminated several exemptions to broaden the tax base and increase revenues.

4. Debt Management Policies

Venezuela's public sector's external debt stood at $22.2 billion at the end of 1999 and is expected to fall slightly to 20.9 billion by the end of 2000. External debt will be equal to approximately 19 percent of GDP by the end of 2000. Venezuela's external debt service totaled 5.8 percent of GDP in 1999, a fall from the previous year's level of 7.8 percent. This figure is expected to drop to 5.6 percent this year. Venezuela continues to carry the domestic debt burden incurred during its 1994–95 banking crisis, despite the recent large increase in oil revenues. The government, however, has made the political decision to greatly expand social and infrastructure spending in 2000–01 in an effort to revitalize the economy and meet numerous pressing social demands in education, health and social welfare. To pay for the higher government expenditures in 2001, the government is planning to draw down savings from its Macroeconomic Investment and Stabilization Fund, which accrues excess oil revenues. Several economists have criticized this policy, but the government is committed to it.

5. Aid

In FY2000, the United States will provide approximately $800,000 in counter-narcotics assistance to Venezuelan law enforcement agencies from international narcotics control funds. This represents a slight increase from FY1999 levels. The United States will also give the Venezuelan government approximately $400,000 in aid under the International Military Education and Training Program (IMET) to strengthen counter-narcotics capabilities. No other forms of U.S. aid are given to the Venezuelan government. In 2000 the United States provided a disaster assistance package of approximately $13 million for humanitarian relief from devastating floods and mudslides.

6. Significant Barriers to U.S. Exports

Venezuela began to liberalize its trade regime with its accession to the General Agreement on Tariffs and Trade (GATT) in 1990, and the World Trade Organization in 1995. Venezuela implemented the Andean Community's Common External Tariff (CET) in 1995, along with Colombia and Ecuador. The CET has a five-tier tariff structure of zero, 5, 10, 15, and 20 percent. Venezuela's average import tariff on a trade-weighted basis is approximately 10 percent. With the exception of automobiles, this rate structure represents a significant tariff reduction for imported goods. Under the Andean Community's Common Automotive Policy (CAP), assembled passenger vehicles constitute an exception to the 20 percent maximum tariff and are subject to 35 percent import duties.

Venezuela implemented the Andean Community's price band system in 1995 for certain agricultural products, including feed grains, oilseeds, oilseed products, sugar, rice, wheat, milk, pork and poultry. Yellow corn was added to the price band system in 1996. Ad valorem rates for these products are adjusted according to the relationship between market commodity reference prices and established floor and ceiling prices. When the reference price for a particular market commodity falls below the established floor price, the compensatory tariff for that commodity and related products is adjusted upward. Conversely, when the reference price exceeds the established ceiling, the compensatory tariff is eliminated. Floor and ceiling prices are set once a year based on average CIF prices during the past five years. Venezuela publishes these prices each April.

Import Licenses: Venezuela requires that importers obtain sanitary and phytosanitary (SPS) certificates from the Ministries of Health and Agriculture for most pharmaceutical and agricultural imports. The government has been known to use this requirement to restrict agricultural and food imports.

On November 1, 1999 the government established a new requirement for importers of agricultural goods. Importers must now register with the Ministry of Production and Commerce (MPC). They must provide the MPC with a list of their purchases, a list of the clients to whom they sell and copies of invoices for those sales. Ostensibly, this is to allow the MPC to investigate charges that imports damage the domestic agricultural sector. Importers have complained that this practice establishes an unnecessary bureaucratic barrier to imports.

Services Barriers: Professionals working in disciplines covered by national licensing legislation (e.g. law, architecture, engineering, medicine, veterinary practice, economics, business administration/management, accounting, and security services) must revalidate their qualifications at a Venezuelan university and pass the Associated Professional Exam. Exceptions may be granted to foreign service companies and their professional staff for limited periods of time and for specific projects or contracts. Foreign journalists who intend to work in the domestic Spanish language media must meet similar revalidation requirements.

Standards, Testing, Labeling and Certification: The Venezuelan Commission of Industrial Standards (COVENIN) requires certification from COVENIN-approved laboratories for imports of over 300 agricultural and industrial products. U.S. exporters have experienced difficulties in complying with the documentary requirements for the issuance of COVENIN certificates. Some Venezuelan importers of U.S. products have alleged that COVENIN applies these standards more strictly to imports than to domestic products.

The government started to require certificates of origin for imports in March 1996 that are "similar to goods which currently have anti-dumping or compensatory measures applied to them." Importers have complained that the new requirement, which primarily affects textiles and garments, is burdensome and time-consuming to fulfill. Tariff and non-tariff barriers also inhibit the importation of milk, some cereals and certain live animals.

Investment Barriers: Foreign investment is restricted in the petroleum sector, with the exploration, production, refining, transportation, storage, and foreign and domestic sale of hydrocarbons reserved to the government and its entities under the 1975 Hydrocarbon Law. However, private companies may engage in hydrocarbons-related activities through operating contracts or through equity joint ventures as long as the following conditions are met: 1) the joint ventures guarantee state control of the operation; 2) they are of limited duration; and 3) they have the prior authorization of Congress. PDVSA has opened the oil sector to increasing amounts of foreign investment since 1993 through both operating contracts and joint ventures.

During 1999 the Venezuelan government passed significant legislation under the Enabling Law in the mining, electric, gas, and telecommunications sectors. The executive branch also passed a new investment law. All of these proposals are generally pro-investment, assuming full implementation and adequate enforcement of their provisions. These laws should result in reduced barriers to foreign investment in these sectors. The exploitation of iron ore remains reserved to the state. One area that is rapidly changing is telecommunications. Under the new Telecommunications Law, the fixed-line telephone monopoly will be deregulated in November 2000. This will permit extensive participation by U.S. firms in both the supply and operations sectors of the industry.

Venezuelan law incorporates performance requirements and quotas for certain industries. Under the Andean Community's Common Automotive Policy (CAP), all car assemblers in Venezuela must incorporate a minimum amount of regional content in their finished vehicles. The local content requirement for passenger vehicles was 34 percent in 1999. In the media sector, the government enforces a "one for one" policy for performers giving concerts in Venezuela. This requires foreign artists featured in these events to give stage time to national performers. There is also an annual quota regarding the distribution and exhibition of Venezuelan films. At least half of the television programming must be dedicated to national programs. Finally, at least half of the FM radio broadcasting from 7 a.m. to 10 p.m. is dedicated to Venezuelan music. Venezuela limits foreign equity participation (except that from other Andean Community countries) to 19.9 percent in companies engaged in television and radio broadcasting, in the Spanish-language press, and in professional services subject to national licensing legislation.

Venezuela's Organic Labor Law places quantitative and financial restrictions on the employment decisions made by foreign investors. Article 20 of the law requires that industrial relations managers, personnel managers, captains of ships and airplanes, and foremen are Venezuelan. Article 27 limits foreign employment in companies with ten or more employees to 10 percent of the work force and restricts remuneration for foreign workers to 20 percent of the payroll. The shortage of skilled Venezuelan workers in the oil sector sometimes makes it difficult for foreign oil companies to meet this requirement. Article 28 allows temporary exceptions to Article 27 and outlines the requirements to hire technical experts when equivalent Venezuelan personnel are not available. Article 19 requires that all orders and instructions to workers are given in Spanish.

Government Procurement Practices: Venezuela's new Government Procurement Law, passed in October 1999, provides details on required information for solicitations to bid on government contracts, and stipulates that there will be no discrimination in the award of contracts. The law grants the Executive Branch significant discretionary power in granting contracts. For example, the President may promote domestic production or offset unfavorable conditions for domestic industry and may set criteria for preferences to Venezuelan nationals. Finally, in September 1999 the Ministry of Energy and Mines issued a directive to PDVSA instructing the company to favor national providers in its purchases of supplies, reversing a long-standing policy that excluded PDVSA from this practice.

Customs Procedures: In response to widespread complaints regarding the extent of corruption in Venezuela's Customs Service, President Chavez has embarked on a public campaign to modernize and restore confidence in the service. In early October the federal police arrested the chief of the Customs Service on corruption charges. Although the government passed a customs law in 1998 that made private customs agents criminally responsible for illegal or undervalued shipments that enter the country, the problem remains significant and its resolution will require a concerted effort by the government. Customs officials have long regarded it their right to extract illicit profit from the processing of customs, particularly in the seaports of La Guaria and Puerto Cabello. The new Enabling Law addresses the problems facing the Customs Service, but it will be some time before results can be evaluated.

7. Export Subsidies Policies

Venezuela has a duty drawback system that provides exporters with a customs rebate paid on imported inputs. Exporters can also get a rebate of the 16.5 percent wholesale tax levied on imported inputs. th5vrthe se pral garpe atjTrt may promo3 wh.11avo utifavria10ong-standing

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cable television. Despite these legal protections, however, computer software and video piracy remain widespread.

New Technologies: Decision 351 and Venezuela's Copyright Law protect a broad scope of products in the computer and broadcasting fields. Nevertheless, Decision 344 excludes diagnostic procedures, animals, experiments with genetic material obtained from humans, and many natural products from patent protection. It does contain provisions for the protection of industrial secrets, particularly testing data submitted in support of patent applications.

9. Worker Rights

a. *The Right of Association:* Both the 1999 Constitution and local labor law recognize and encourage the right of unions to organize. The comprehensive 1990 Labor Code extends to all private and public sector employees, except members of the armed forces, the right to form and join unions. One major union umbrella organization, the Venezuelan Confederation of Workers (CTV), three smaller unions affiliated with CTV, and a number of independent unions all operate freely. It is estimated that 35 percent of the labor force belongs to unions.

b. *The Right to Organize and Bargain Collectively:* The labor code protects and encourages collective bargaining, which is actively practiced in the Venezuelan economy, even in critical economic sectors such as oil production. Employers must negotiate a collective contract with the union that represents the majority of their workers. The labor code states that wages may be raised by administrative decree, provided that the National Assembly approves the decree. The law prohibits employers from interfering with the formation of unions or their activities. Employers may not stipulate as a condition of employment that new workers refrain from union activity.

c. *Prohibition of Forced or Compulsory Labor:* The labor code states that no one may obligate others to work against their will.

d. *Minimum Age for Employment of Children:* The labor code allows children between the ages of 12 and 14 years to work only if the National Institute for Minors or the Labor Ministry grants special permission. However, children between the ages of 14 and 16 only require the permission of their legal guardians. Minors may not work in mines or smelters, in occupations "that risk life or health," in jobs that could damage their intellectual or moral development, or in "public spectacles." Those under 16 years of age cannot work more than 6 hours a day, or 30 hours a week. Minors under the age of 18 years may work only between 6 a.m. and 7 p.m.

e. *Acceptable Conditions of Work:* Effective May 1999, the monthly minimum wage for the private sector is $190 (BS 120,000) for urban workers and $170 (BS 108,000) for rural workers. The law excludes only domestic workers and concierges from coverage under the minimum wage decrees. The Ministry of Labor enforces minimum wage rates effectively in the formal sector of the economy, but generally does not enforce them in the informal sector. The new Constitution reduces the standard workweek to a maximum of 40 hours and requires "two complete days of rest each week." The code states that employers are obligated to pay specific amounts (up to a maximum of 25 times the minimum monthly salary) to workers for accidents or occupational illnesses, regardless of who is responsible for the injury.

f. *Rights in Sectors with U.S. Investment:* People who work in sectors that receive high levels of U.S. investment receive the same protection as other workers. The wages and working conditions for those in U.S.-affiliated industries are usually better than those found in wholly owned domestic enterprises.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		2,048
Total Manufacturing		1,538
Food and Kindred Products	414	
Chemicals and Allied Products	230	
Primary and Fabricated Metals	104	
Industrial Machinery and Equipment	21	
Electric and Electronic Equipment	122	
Transportation Equipment	214	
Other Manufacturing	434	
Wholesale Trade		149

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999—Continued

[Millions of U.S. Dollars]

Category	Amount
Banking	50
Finance/Insurance/Real Estate	434
Services	428
Other Industries	2,104
TOTAL ALL INDUSTRIES	6,750

Source: U.S. Department of Commerce, Bureau of Economic Analysis